This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

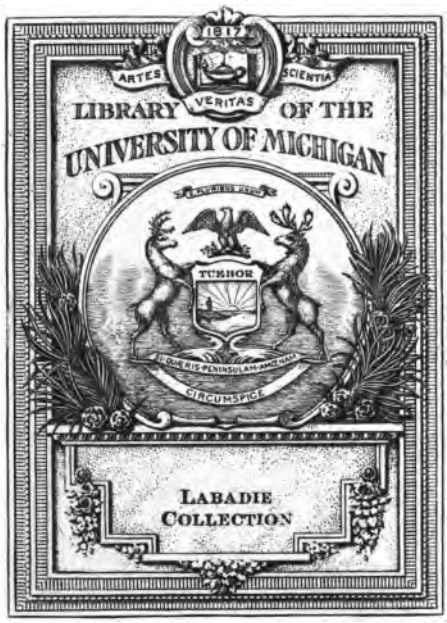
Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

+ *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.
+ *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.
+ *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.
+ *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at `http://books.google.com/`


1817
ARTES
SCIENTIA
VERITAS
LIBRARY OF THE
UNIVERSITY OF MICHIGAN
TUEBOR
SI QUÆRIS PENINSULAM AMŒNAM
CIRCUMSPICE
LABADIE
COLLECTION

To
Mr. & Mrs. Henry Vincent
with compliments of
James A. Miller

Sept 1122

UNCLE SAM—BANKER

1910—1940

DEDICATED

To the Work of

CALLING ATTENTION

to the

GREAT VOLUME

and

SUPREME IMPORTANCE

of the

MONEY SERVICE,

and of the

GENERAL WELFARE NECESSITY

For its Establishment

UPON A MORE PUBLIC BASIS

of

ISSUE AND REGULATION

UNCLE SAM BANKER 1910—1940

BY

JAMES A. FULTON

PUBLISHED BY THE AUTHOR

1915
HUTCHISON & BROADBENT
McKEESPORT, PENNA.

HG
2-451
.F16

COPYRIGHT
1915

General Library
LAWRENCE
COLLEGE
9.30.52

INTRODUCTORY

When about to write this introductory, I was again impressed with the fact that I paid but comparatively little attention to the opening remarks of other writers. Seeking help among my friends, I found that very few of them ever read the introductions, especially those of any length, however much they might be interested in the body of the writing. This was at least a hint that the wisdom of having any introductory would be in proportion to its brevity.

I have tried to present the subject as clearly and explicitly as my command of language will permit, "without evasion and without varnish," to use an expression borrowed from a good friend; and I trust that the volume, as a whole and in its various parts, will be so self-explanatory that when you have finished its reading you will have formed a clear and definite conception of the ideas I have tried to express and promote, however much your judgment may dissent upon their merits.

From the experiences of daily contact with fellow-men, I have been constantly impressed with the wide lack of interest taken in money, currency, banking and kindred topics, among the very people who

should be most actively concerned, and of the difficulties that attend any effort to rouse and quicken such interest.

Much of this apathy may be directly traced to the voluminous and exhaustive detail with which writers have covered the field of discussion. In many of the works coming under my observation, I have found statistics and corroborative authorities, though excellent in themselves, arrayed in such vast quantities that they tax the patience even of those already much interested.

Under such circumstances, I am sure that the average person must stand appalled at the very bulk of the material he is asked to digest, and I can readily understand why he is so reluctant or even refuses to embark upon such an apparently encyclopedic task.

It is my hope that the present volume, by its comparative brevity and its manner of presenting the argument, may catch and rivet the attention of all who may chance upon it, giving them an idea of the supreme importance of the subject and thereby encouraging them to a more exhaustive investigation of its details.

The abundance of available and pertinent material at hand, and the constant tendency and apparent necessity to give much attention to the details of the discussion, has made the work of curtail-

ment and elimination rather difficult and the argument may at times appear broken or disconnected. In sheer defense of space, I have been compelled to treat important phases of the subject in what is freely admitted to be a very brief and incomplete manner and, on account of such scanty treatment, possibly not altogether satisfying to those who would delve into the question in the fulness of its details and ramifications.

Before closing this introductory, I desire to express a few words of grateful appreciation to the artist, Mary E. McAuley, of Pittsburg, Pa., who, in the numerous illustrations and cartoons, has so splendidly caught the "swing" and purport of my manuscript and suggestions. If you find that you have been interested in this volume and encouraged to further investigation, I am sure that it will be due in large measure to the manner in which the illustrations and cartoons help to "drive home" an argument or express a situation, and the artist will be justly entitled to a goodly share of the credit, without assuming any responsibility for errors of commission or omission on the part of the author.

JAMES A. FULTON,

McKeesport, Pa., February, 1915.

UNCLE SAM VISITED BY AN OLD FRIEND

UNCLE SAM, BANKER

1910—1940

CHAPTER I.

John Borden visits Uncle Sam—Relates Experiences in Africa—Takes Pride in Labors—They Discuss Capitalists and Wealth Holdings—His Return to Native Land—Notes General Prosperity—Inquires About Uncle Sam's Doings.

Miss Columbia,—"A gentleman desires to see you. Shall I bring him in to your den?"

Uncle Sam,—"Certainly, dear. This is my favorite loafing quarters and the best place to entertain my visitors. I don't believe I will go down to the office today, anyhow. I feel like taking 'a day off' and a little company, if it is agreeable, will help to fill in the time. If it is distasteful, I will soon get rid of him in some way or other."

Miss Columbia retired and soon returned, accompanied by a fine-featured gentleman of distinguished appearance and advanced years, whose deeply bronzed complexion indicated a nativity or long residence in tropical climates.

Arising to meet the friendly approach of his visitor, Uncle Sam was conscious of there being something familiar in his features or expression and mentally sought to get him located. As they exchanged cordial greetings and a friendly handshake, this feeling was emphasized by a decided twinkle in the stranger's eyes, as if he knew that he had the advantage of Uncle Sam's memory.

After a slightly embarrassing moment, the visitor broke into a broad smile and said, "Well! Well! Uncle Sam, is it possible that you do not recognize your friends? Your memory must be failing."

"I guess I will have to give it up," drawled Uncle Sam. "I have been rummaging around in my memory trying to get you located among my many friends, but it seems that I can't make the connection. I have always sort of prided myself on being able to keep track of all of them, but the joke seems to be on me this time."

"Your apparent lapse of memory is due to the fact that you are trying to get me placed among those you meet every day or have come in contact with recently, perhaps within a year or so," said the

visitor, keenly enjoying Uncle Sam's embarrassment. "But turn your thoughts back a few years, say about twenty-five or thirty. Think of me as I would have appeared when that much younger. Imagine me as being three or four shades lighter in complexion and——"

"John Borden, as sure as I'm alive!" exclaimed Uncle Sam, interrupting his visitor and grabbing both of his hands. "Where did you drop from? You are a cure for sore eyes. This is certainly a pleasure, indeed. I thought you dead and buried long ago, for I have not heard of you in years. Daughter, our visitor is one of my old and dear friends. You may recollect having heard me speak of him in years past and gone."

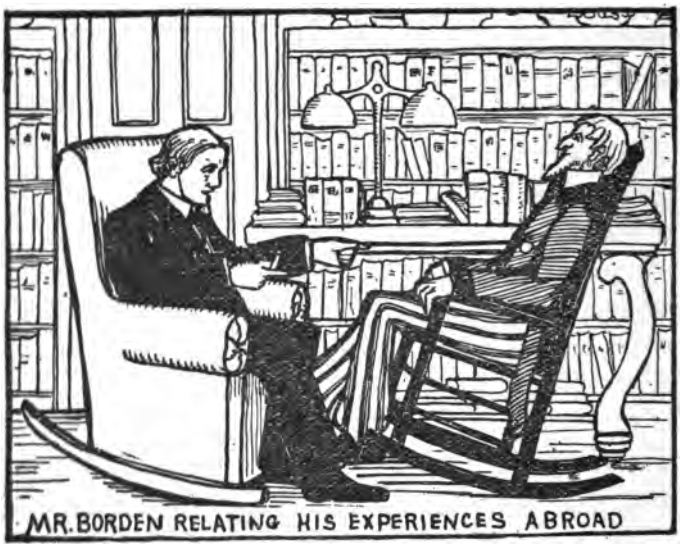
"Oh, yes, often," replied Miss Columbia, "but I would not want to admit openly just how many years ago it was, for fear that Mr. Borden might think I am getting old. Sometimes we girls have to be careful and conceal the passing of years as much as we can."

"Don't worry," said Mr. Borden, gallantly. "No one will be liable to accuse you of being old for many years to come, if they are to judge by appearances."

"There you go, handing out flattery just like some of the younger men," countered Miss Columbia. "But I must be about the housework and I know that you two are just itching to talk about old

times," and she excused herself from the room.

Soon they were comfortably seated in a couple of easy rocking chairs and Uncle Sam began with, "Where have you been, John, for these many years? What have you been doing?"



MR. BORDEN RELATING HIS EXPERIENCES ABROAD

"Your questions would take a long time to answer in detail, but I will give you the gist of it in a very brief form, for I am exceedingly anxious to hear the story of what you have been doing since last we were together," replied Mr. Borden, as he helped himself to a cigar at his host's invitation.

"I left the United States in January, 1910, and soon landed in the comparative wilderness of Central Africa, bent upon a business mission which I supposed would require me to remain there but a few months at most. Somehow or other I became much interested in the new country and its possibilities. I got in touch with various men and propositions relative to its development and soon found myself deeply immersed in new affairs and in the disposition of which I became very much enthused.

"Thus one year quickly followed another, and, with the passing of each year, I became still more attached to the affairs of that country and less and less concerned in the affairs of my native country. It became hardly more than a distant memory, the immediate work about me absorbing almost my entire time and attention.

"It has been a great field of labor and it is a source of gratification to feel that I did somewhat near 'a man's share' of the work. It has been a work that I have enjoyed most keenly, even though it was occasionally dangerous to life or health and at times rather doubtful and precarious from a financial point of view. We were not always certain of our ventures getting through safely to the point where they would produce adequate returns.

"But, as the old saying goes, 'All's well that ends well,' and on the whole our work has been a suc-

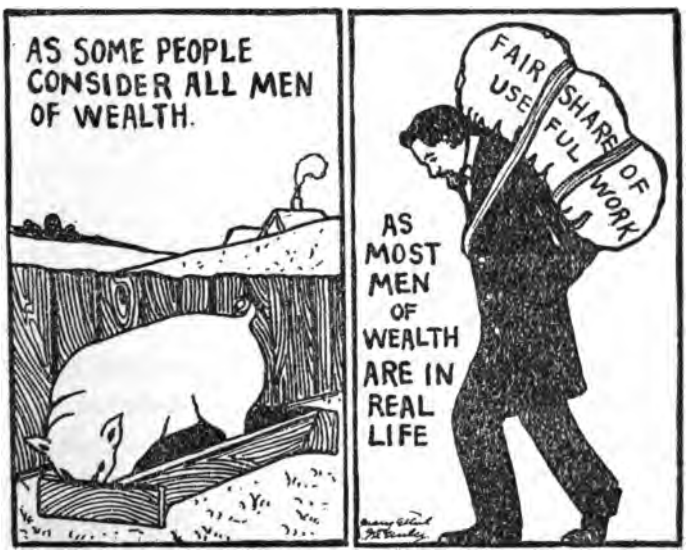
cess. I look back upon it with some degree of pride, which I believe you will consider excusable under the circumstances."

"Yes, entirely excusable," said Uncle Sam. "A man may justly feel some pride in the accomplishment of his part of the world's work, especially if the work has been of such a nature as to insure permanent benefits to society at large, and, in its after contemplation, I am sure one will find at least a fair reward for the trials and tribulations he may have endured. **It is a sort of mental payment, perfectly understood by those of an industrious nature, but beyond the comprehension of those who are naturally inclined to be shirkers or drones.** But did you make any money out of all your labors?" This question Uncle Sam put with a quizzical expression in his eyes.

"No, not so very much," replied Mr. Borden. "Considering the extent and importance to that region of the work we put through, I suppose you would call it a flat failure if you measured it by the amount of wealth I have piled up. Some of those interested with me made more money from our work, but for myself I never seemed to care so very much for financial returns. We often had worries over money matters, but they were mostly caused by fear of something happening to check our work. I was too busy trying to get things accomplished to

waste time or energy in piling up the results for my own selfish uses.

"Many of the so-called 'capitalists' are wantonly accused of being 'hogs,' trying to get everything for



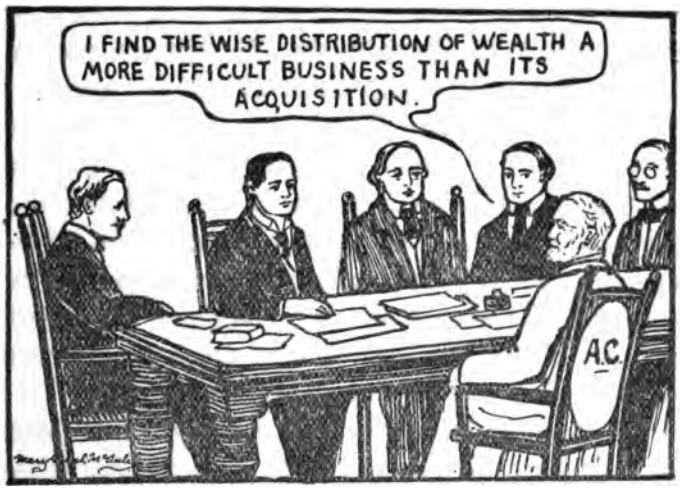
themselves to enjoy selfishly, when as a matter of fact they may be wholly indifferent to personal rewards and view monetary matters and wealth accumulations simply as necessary tools in the proper development of affairs.

"Of course there are exceptions here and there, those who are sordidly selfish and view everything from the standpoint of their own personal aggrandizement, who mistake the means for the end. But this is not true, generally speaking, or it would indeed be a very dangerous and deplorable condition of society.

"But, as I realized that one ought to make some reasonable provision for 'rainy days' and the declining years of life, I have been able from time to time to put aside a little, until I suppose I have enough laid by to keep me for the balance of my years and make adequate provision for the dependent ones who have valid claims to my help.

"That is about all one needs, or, for that matter, about all he should be permitted to accumulate, for fear that it would pass into profligate hands and become wasted or used to the direct detriment of society rather than for its benefit.

"Once in a while we find men of great foresight and will-power who can and do dispose of great wealth wisely, if death does not overtake them before their plans are all completed. Generally speaking, however, very few people are capable of disposing of large holdings of wealth without causing quite as much injury as good. But I must quit moralizing and get back to our subject.



"With the passing of the years, the dormant power of my earlier associations began to reassert itself. Gradually there arose within me a desire to close up my affairs and return to my native land to spend the evening of life.

"This desire became so intense that it could no longer be denied and I began to shape up matters for my return, closing up finally a few weeks ago and returning to the United States after an absence of a score and a half of years.

"Since my return, I have been traveling around a little, mainly in some of the cities I was formerly quite familiar with, trying to get my bearings again,

so I would not feel so much like a stranger. But the changes are so great that it will take me some time to get myself readjusted to fit. The cities in general have been almost wholly reconstructed and even out in the rural districts the changes seem to be very marked. Everywhere I see proof of great increase of your national wealth and of its wide diffusion and possession by the great mass of your people. **Widespread prosperity is apparent on every hand and you seem to have almost entirely eliminated the abject poverty which formerly was so much in evidence and about which you were so much concerned.**

"Ever since I landed in this country, I have been arranging my travels so I could call upon you without any great delay. I just arrived here early this morning and called at your offices."

"What kind of a reception did the boys give you?" asked Uncle Sam, with a broad good-humored grin.

"Oh, pretty fair," laughed Mr. Borden in reply. "When I asked for you, one of the younger ones rather flippantly told me that he 'believed the old gent was getting lazy, that he was liable to take a day off almost anytime and if I wanted to see you, I had better go out to the house!' I noticed, however, that his voice and expression both bespoke a love and loyalty to you and were not intended as disrespect."

"Those boys of yours are certainly hustlers and

work as if they enjoyed their work rather than from fear of your wrath if they fell down or made mistakes. You ought to feel proud of them, as no doubt you do.

"That, in brief, is a sketch of what I have been doing and I am now ready to hear your story. What have you been doing in my absence? It is apparent that the nation has been undergoing some great developments and I presume that you have had a large part in such work, directly and indirectly. You always did have quite a considerable range of activities and I remember that when I left the country there was a whole host of other lines being considered as more or less advisable or necessary for you to take up and push forward in order to protect the best interests of the people as a whole.

"From time to time, I have heard scattered and fragmentary reports of your doings, but, as I became somewhat buried away from the outside world, in large measure I lost track of the progress of events and will need much enlightenment along the lines of your labors."

CHAPTER II.

Uncle Sam Describes Progress Along Many Lines. Parcels Post An Example—Contest Between Pessimism and Optimism—Improvements in Money And Banking Facilities Most Important of Recent Years. Public Banks Installed—Bitter Opposition—Division of Banking Field Into Public and Private Spheres.

"Well, John, I have listened with great interest to the sketch of what you have been doing and I am satisfied that you have reflected credit upon the land of your birth by the part you have taken in the world's development, even though your lines have been cast in far distant lands. But I rejoice that the yearnings for 'home again' have brought you back to your native land at last.

"You ask about our progress during the past thirty years and the part I have taken in it. I hardly know where to begin, for we have indeed made great progress along many different lines, some of which were unknown, or at least hardly touched upon, thirty years ago.

"The things I now run direct or exercise a dominant control over are so many and so varied that

some of the more timid of my people are afraid I will be swamped by their aggregate volume some of these days.

"But I notice that our ability to conduct successfully the things we undertake seems to increase and develop side by side with their increasing magnitude and diversity. Our field of activity is now handled quite as successfully, in fact much more so, than it was when my affairs were but a fraction of their present proportions.

"On the whole, our people are well satisfied that their best interests have been conserved by the steady increase in the scope and magnitude of my work.

"Even those who in theory were strictly opposed to a general enlargement of my scope of operations would often fall in line and uphold specific proposals as they were brought forward.

"As a matter of fact, in about all the lines I have undertaken, after they were installed and given opportunity to produce results, those results have ~~have~~ been so universally beneficial that almost everyone lays aside their objections and their fears and joins in hearty approval of the venture and mutual congratulations upon its successful outcome.

"This tendency of the people to adjust themselves to newer and better conditions was quite clearly illustrated by our experience when the Parcels

EXPRESS COMPANY
GREAT JOKE
BETTER LAUGH NOW
UNITED STATES PARCELS POST
WELLS FARGO
U.S.
ADAMS
AMERICAN
EXPRESS COMPANY
COME BACK, WE WILL CUT OUR RATES
TOO LATE, BOYS- WE HAVE YOU SKINNED A MILE
UNITED STATES PARCELS POST
WELLS FARGO
U.S.
ADAMS
AMERICAN
A BIT OF HISTORY

Post was added to my postal system. This was about the time you departed on your African trip or perhaps a year or so later than that date. At the time——"

"I heard that you did finally take it over and was rather glad to hear of it," interrupted Mr. Borden. "If my recollection is correct, it was discussed pro and con for many years before I went away. Some of the people got very much heated up over the idea of you going into the parcel collecting and delivering business. They deemed it an unwarranted encroachment upon a field that should always remain in private hands."

"For my part I never could see very much difference in principle or application between a letter that weighed an ounce or less and a parcel of merchandise that might weigh a few pounds. But what did you do with the 'Big Four' as they called the private express companies then existing? How did you get their permission?"

"Oh, we did not ask for it," replied Uncle Sam, chuckling gleefully. "When we finally lost patience with their exactions and their inadequate service, I just started into the business on my own hook."

"Some of the express people laughed at my venture and predicted disaster for it, **but they were speedily and sorely disappointed.** Within a year or two after we started our own Parcels Post System,

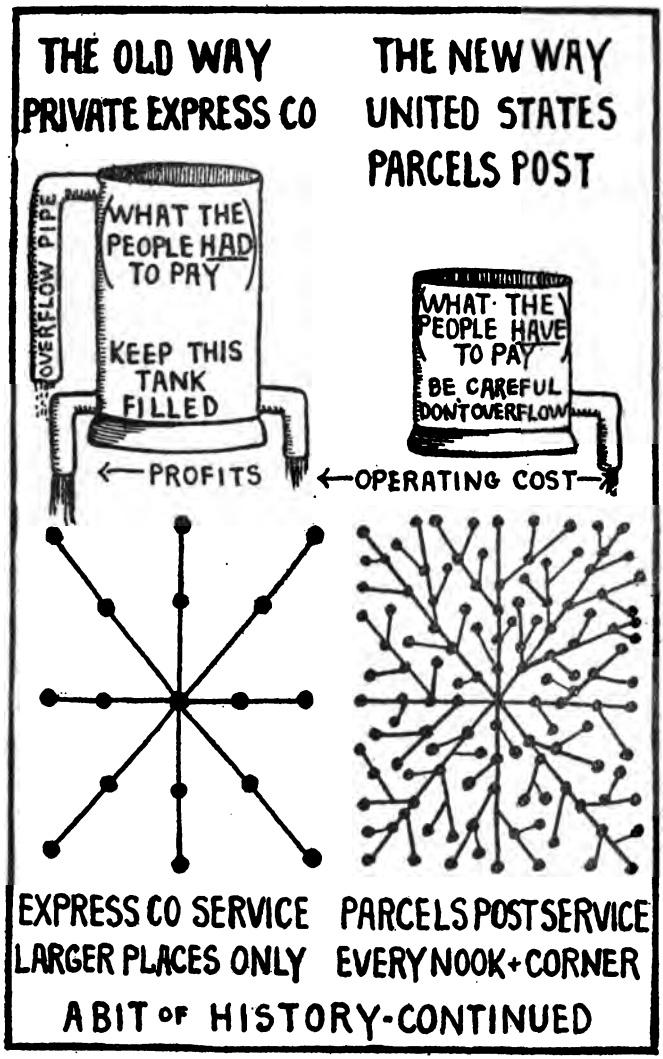
the express companies were panic-stricken at its success.

"We made sweeping reductions in the established rates and made the service available to a far wider range of people than the private express companies had accommodated. In fact, we made it universally accessible to all our people, no matter how remote their place of residence or business, just as we had been furnishing the mail service.

"From its beginning, the public Parcel Post System was such a pronounced success that no person has ever suggested that we go back to the old regime.

"As in many other lines, the private express companies never had any great investment of physical equipment and what little they had would have been of very little use to me, so I did not buy them out or pay any vast sum for supposed franchise valuations. In fact, I don't suppose it would have been a wise move for me to have taken their outfits gratis.

"About all they had was a sort of business organization and at a very trifling expense we simply set up another organization, far superior to theirs. The thousands and thousands of postoffices scattered over the country with the many adjuncts for collecting and distributing mail matter was just what was


THE OLD WAY
PRIVATE EXPRESS CO
THE NEW WAY
UNITED STATES
PARCELS POST
OVERFLOW PIPE
WHAT THE PEOPLE HAD TO PAY
KEEP THIS TANK FILLED
WHAT THE PEOPLE HAVE TO PAY
BE CAREFUL DON'T OVERFLOW
← PROFITS
← OPERATING COST →
EXPRESS CO SERVICE
LARGER PLACES ONLY
PARCELS POST SERVICE
EVERY NOOK + CORNER
A BIT OF HISTORY-CONTINUED

needed to take over and handle the Parcels Post. With a few changes here and there, a system of parcel delivery was right at hand, ready for use.

"The private express companies could not stand in the face of such competition and speedily became a very unimportant factor in the parcel business. The country was freed from the burden of paying large dividends upon their watered and fictitious stock valuations. **Instead, the people directly collected such dividends in the form of reduced charges and better service.**

"Millions and millions of dollars were thus wiped from stock market valuations, **but the real wealth of the country was greatly increased,** for the Parcels Post under our public system has an economic efficiency far greater than under the old private arrangement.

"Seldom, indeed, do any of the people express fears or regrets for the things accomplished. They accept them as entirely proper and would seriously object to abandonment of them.

"It is the future work and progress that appears so dark and forbidding to them. At every suggestion the timid ones balk and shrink. They can see naught but gloom and disaster if I add anything new to my list of affairs. They hamper and hinder progress by their continual carping, objecting and fault-finding.

"But these pessimists really do a very great and useful service, **for they force a rather critical and complete examinaton of every proposal put forth.** They compel it to be established rather clearly that the proposal under consideration is of a kind and character that can best be handled publicly, rather than by leaving it to private initiative and enterprise to conduct.

"Were it not for this 'sifting out' process forced by those of pessimistic inclinations, we would soon be overwhelmed by a flood of ill-advised activities not at all suitable or advisable for me to get into, or least not so for many years to come.

"Some people are so visionary and impracticable that it is almost impossible for them to get anything like a correct perspective of social progress. They see private enterprise unable to properly take care of a certain line of activity and they see that same line of activity taken over and run successfully as a public affair. They at once jump to the extreme view that therefore all things can best be handled collectively.

"The ultra-visionary are about as illogical as the ultra-conservative who would either deny the advisability of any extension of my field of activity or who would attempt to lay down any hard and fast limits for the future progress.

"Changing conditions, the progress of events and the increasing knowledge and wisdom of mankind will, from time to time, dictate the scope of my activities, each proposal being settled upon its own merits rather than because it may fit in with the views of either extreme.

"The political allignments of the present are largely but the grouping and regrouping of the people as they argue and dispute over the merits of various propositions put forth, to the end that the things selected to be instituted more publicly shall be those at the time most advisable or necessary.

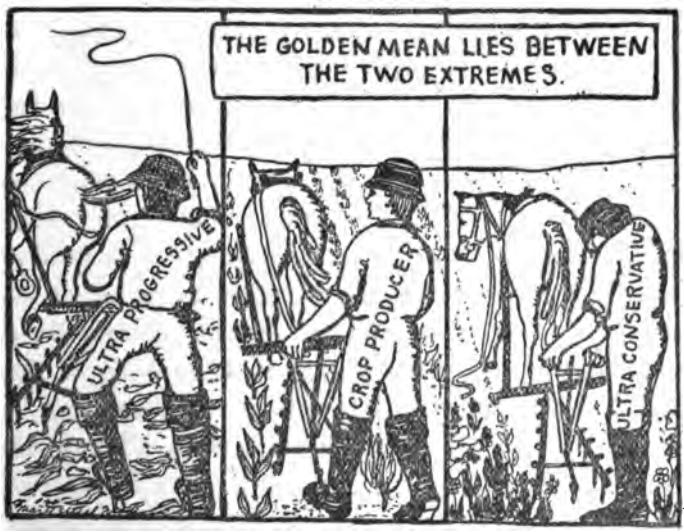
"Real progress lies somewhere between the extremes of those who would go helter-skelter, without adequate investigation or discrimination, and those who are of such inert disposition that they would cease to make any progress.

"In the field of social progress, nothing could be more true than the old maxim—'The golden mean lies between the two extremes.'

"Sometimes matters seem to progress so slowly that the ultra-progressive become very restless and wrathful. At other times, a reverse condition may exist and the ultra-conservative forces become alarmed and are in the last stages of despair and despondency over what they consider to be a serious illness of the body politic.

"But, on the whole, the result has been generally

satisfactory and you could travel about for days and find very few who would be in favor of abandoning any of the lines of work I have engaged in. If we have equal success in the future, I am satisfied that the country will derive increasing benefits from such a policy.



"At the present time there are several matters being warmly debated throughout the country and it is not yet certain just what will be the next line of activity to come under my charge and keeping."

"This brings me back in a roundabout way to

your question as to what I have been doing during the past thirty years. I hope you will excuse my wandering so far afield from the direct subject."

"Certainly," replied Mr. Borden. "I had almost forgotten that I had asked you any direct question, for I was so much interested in your free and easy comments upon the economic and political tendencies of the times.

"But, I suppose it is too sweeping a request to ask you to tell of the many things you have instituted or elaborated during my absence. Your remarks about the Parcels Post lead me to believe that there have been various other lines of work you have undertaken, possibly even more important. Suppose I modify my question by asking you to outline the most important thing you have taken up or installed, the one thing or the series of closely related activities which you consider to have been of the greatest usefulness and benefit to the people.

"I know it will probably be a little difficult for you to pick out any one thing and call it the best of many good things, but I imagine there must be one thing in which you take a little extra pride and which lies just a little closer to your heart, without disparaging the usefulness or benefits arising from any of the others."

"Yes, you are right," replied Uncle Sam, "and I am glad you have changed the form of your ques-

tion, for it was so all-embracing that I hardly knew where to start or how I could give you even a brief outline of my many activities."

"It is rather a delicate matter to decide which is the greater among many things, all of which may be useful and apparently indispensable. Somewhat like the old dispute over the relative merits of fire, water and air. But in a practical everyday sense, we do draw lines of distinction between the things we deem of greater or lesser importance until we finally arrive at what we consider the one most important."

"All things considered, I believe the people have already derived greater benefits, with every prospect of increasing future benefits, from the banking and monetary system that I am operating and from the general improvements in our currency and exchange system than from any other of the activities I have undertaken during the time you have been absent from us."

"The results have been so beneficial and so far-reaching in their bearing upon the prosperity and welfare of the people that I often find myself wondering why we did not take such steps years ago."

"The old system was so crude and so inadequate to respond to the needs of the people that it seems almost like criminal neglect of duty on my part to

have refrained from taking charge of it much sooner."

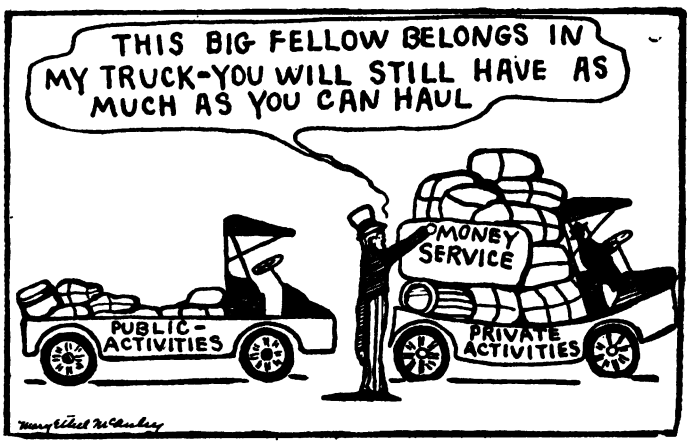
"Am I to understand that you have a banking system as part of your present direct activities?" questioned Mr. Borden. "You surely don't run banks as part of your regular work, like you run the post-office? You surely don't run a bank in anything like the sense that banks used to be run before I went abroad, permitting people to deposit their funds, check them around to each other, make loans to the people, etc.?"

"Yes, indeed," said Uncle Sam. "My banks do all of those things you mention, besides making themselves useful in many other ways. And they do their work with an economy and efficiency infinitely superior to the old patch-work system, or rather lack of system, as you probably remember we had in operation thirty or more years ago.

"Formerly, we had to depend, for our money service, upon a raft of so-called 'National Banks, state banks, savings banks, private banks, trust companies, private money lenders and other concerns of varied degrees of responsibility, operating under a variety of different laws and special privileges.

"Their work was never satisfactory and it was always exceedingly expensive to the public at large and especially to the industrial and productive interests. That hodge-podge of financial facilities was so

unscientific and inadequate that the country was periodically 'blown up' by its failure to respond to the needs. General business affairs were never safe, for the unscientific nature of the monetary facilities prevented business from having any solid foundation to build upon."



"But years ago I came to a realization that the banking system, from its very nature and purpose, ought to be made a public institution, just as much so as the postal system. In fact there seems to me to be as many or more reasons and justifications for the banking system to be under my charge as there are for the postal system."

"From the foundation of our government it has been evident that banking was not wholly a private business, for the laws were always, to some degree at least, trying to dictate what the banks, owned and operated by private persons, should do or should not do. They have always been considered semi-public and every once in a while the public had to take a more direct hand and help or force the banks to act for the public good.

"But it is only within more recent years that **the people in general have come to realize that banking is fundamentally a public function that can not with safety, or with due regard for economy or efficiency, be permitted to remain under the rule or domination of private persons or corporations.**

"The people as a whole were a long time in realizing that truth, those selfishly interested in perpetuating the old methods used every possible effort to prevent action, but the popular pressure became so great that it gradually swept aside all obstacles and prejudices.

"We did not start in upon a very extensive scale, but began small and gradually spread out and developed the public system, **until today it has, in volume, a great majority of the banking field, private banks existing only to the extent they are necessary to take care of some lines of money-lending not deemed feasible or advisable for the public system**

to provide for. Even within this smaller field of usefulness we exercise, directly and indirectly, a very large measure of beneficial regulation and control.

"Some of the more enthusiastic think it will soon be possible to abolish all other banks and private money lending and have every phase of the money service carried on through the public system, but, for my part, I do not cherish any such hopes. It seems to me that the personal equations and human conditions are so varied and complex that it would be impossible or inadvisable to set up any complete monopoly of the work.

"It is somewhat the same as in the postal system, whereby the public established a means of transporting information, parcels, etc., between persons removed from each other. No matter how nearly perfect the system may be made, there will still be innumerable occasions, the odds and ends, where private means will best effect the purpose desired.

"Private banking concerns, to the extent they still exist and operate in this country, do a very useful work in attending to the 'fag ends' and my public system co-operates and helps them to fulfill their spheres of usefulness.

"Our present banking facilities are divided into what you might call two sections: 1st, the Public

Banks, handling a very large volume of business, and 2nd, the Private Banks, with a comparatively small volume of business; both sections being important and necessary to the welfare of the people."

"This is certainly a surprise to me," said Mr. Borden. "Although from time to time, in our African business affairs, the bankers we had dealings with told me that the actions of the United States along financial lines were having great effect throughout the world and would probably result in all countries rebuilding their exchange methods.

"Your people, or at least those most actively engaged in banking and financial matters, must certainly have had a great change of opinion to ever have given their approval to the idea of your going into the direct banking business, even upon a small scale, to say nothing of the scope you have indicated that your present banking operations embrace.

"Why, I can very distinctly remember that for years before I went away it was considered almost treasonable and a sure sign of idiocy to suggest that it would be wise for the government to go into the banking business. If any venturesome spirits put forth any suggestions along those lines they were immediateiy jumped upon by a horde of financiers, economists and public men. At that time nothing seemed more sure than that you would never go into the banking business."

"Yet here I am, not only in it, but the **'biggest fish in the pond,'** " laughed Uncle Sam.

"It proves that the days of miracles are not quite past. Public opinion is now unanimous in upholding the wisdom of my banking system, and were any person to suggest seriously that I ought to go out of the banking business, I really think there would be a commission appointed to investigate his sanity. It is an evidence of the grand truth so well expressed by Lowell, the poet philosopher:

'New occasions teach new duties,
Time makes ancient good uncouth.
They must upward still and onward,
Who would keep abreast of Truth.'

"Yes, there were many stormy arguments and debates prior to my entry into the banking business. I often think of the uncalled-for abuse and vituperation heaped upon those patriotic pioneers, who with more or less clearness, foresaw the imperative necessity for my getting into the business 'with both feet' as the old saying runs. We owe them a great debt of gratitude for the manner in which they proclaimed their views in the face of almost unparalleled calumny.

"But the idea began to get a sure foothold. It began to spread, slowly at first and then more rapidly. There were no backsliders. People began to veer around in their point of view. They began to study banking operations as a public utility rather than as a private and corporate possession. Probably in no field of economic thought has there been such a complete and sweeping change in opinion.

"Perhaps the most heartbroken people I meet today are some of my old friends who were considered as being among the standard economists of the old regime. Their writings are their monuments and some of them would give much to have blotted from

the records their many arguments protesting against my going into the banking business.

"In part, these men were thoroughly honest and sincere in their opinions, but I am sorry to admit that **many of them permitted their judgment to be swayed and their arguments to be framed so as to uphold the expressed or implied wishes of great moneyed individuals or institutions who were such potent factors in financing the colleges, universities and magazines wherein many of the economists earned their living in the years past and gone.**

"Would it be asking too much of you to give me a brief outline of the banking system as it is today, together with the more important steps by which such result has been brought about?" inquired Mr. Borden, as Uncle Sam paused in his reminiscences."

CHAPTER III.

Summary of Present Banking Affairs—Borden Amazed at Conditions Revealed——Asks Many Questions—Contrasts With Former Methods—Private Banking Field Explained By Uncle Sam—Much Different From Old Way——More Substantial and Efficient—Accepts No Deposits—Loans Capital Stock Only.

Before resuming the conversation, Uncle Sam searched around among the many papers lying upon his table. Finally picking up a couple of leaflets, he handed one of them to Mr. Borden with the remark, "It is a little statement prepared for the purpose of giving a brief summary of existing banking affairs."

Mr. Borden read the leaflet through slowly and carefully, the expression of his face denoting a continuous round of surprise and perplexity, Uncle Sam meanwhile keenly enjoying the situation.

The leaflet in full was as follows:

1 9 4 0.

Estimated population of U. S.....160,000,000

Estimated wealth of U. S...$300,000,000,000.00

THE PUBLIC BANKS.

Every postoffice is a branch, empowered to transact various portions of the work included in the general system.

Deposits received in any amount.

All deposits subject to check, or withdrawal in cash, in whole or in part, at any time.

No interest paid upon deposits.

Aggregate number of depositors....40,000,000

Aggregate deposits.....$60,000,000,000.00

Loans made upon bonds of states, counties, cities, school districts and other sub-divisions of government. Also to corporations, partnerships and individuals upon pledging of ample real-estate security and upon warehouse certificates of staple products.

Interest rate upon loans.....2 per cent

Aggregate volume of loans, $60,000,000,000.00

After making ample allowance for entire cost of operation, the public bank system results in a net annual profit to the government of approximately $900,000,000.00

THE PRIVATE BANKS.

Approximate number of all kinds of private banking and money-lending concerns 200,000

No deposits allowed, either 'on time' or 'subject to check.'

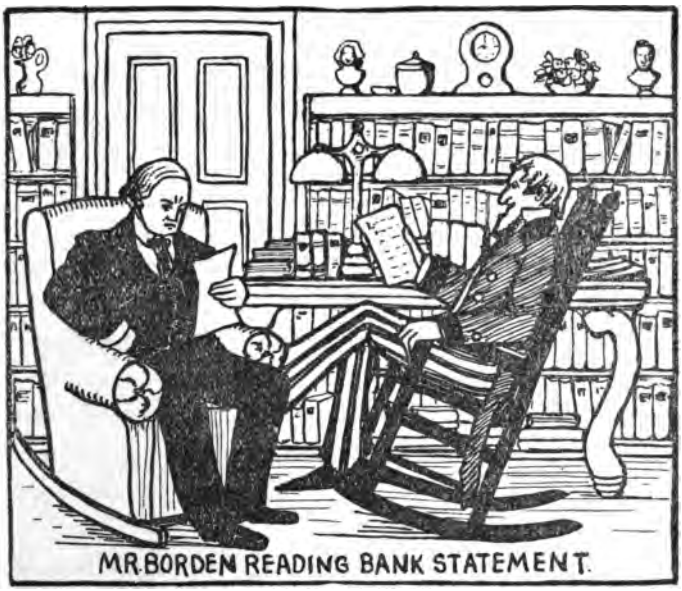
All loans made from proceeds of paid-in capital stock.

Aggregate capital-stock.. ..$15,000,000,000.00

Aggregate volume of loans..$15,000,000,000.00

Interest rate upon loans—not to exceed 6 per cent.

Mr. Borden read the leaflet through a second time, even more carefully than before, his perplexity increasing with each moment.



MR. BORDEN READING BANK STATEMENT.

Finally he turned to Uncle Sam and asked, 'What kind of a hoax is this? I thought at first that perhaps my eyes were playing me tricks, but, as the second reading seems to be the same as the first, I think the leaflet must be some kind of a joke, for it appears to me to be one of the most ridiculous and impossible statements that a printer could put in

black and white. It is about the extreme limit of absurdity."

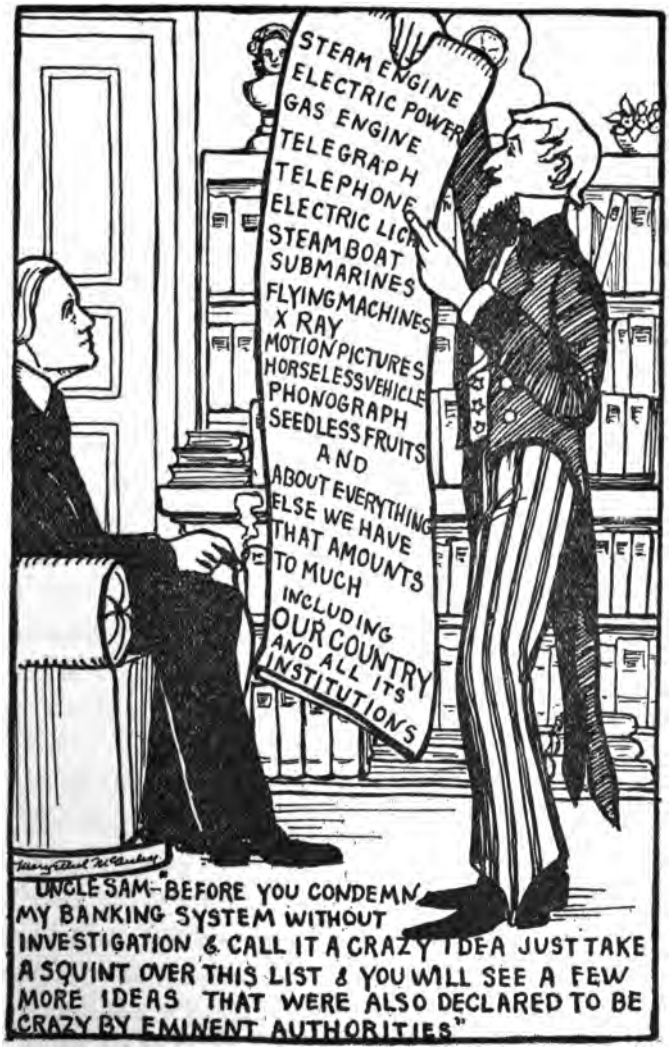
"Nevertheless, it is simply a plain statement of the actual existing condition," replied Uncle Sam.

"It may be absurd to you, as you have not kept track of our progress during the past thirty years, but the people nowadays see nothing absurd or unreasonable in the situation as it is. Of course, the figures are large, but you will recollect that we have been growing and it now takes large figures to express the situation."

"Pardon me, if I may have seemed to be discourteous," interrupted Mr. Borden. "For the moment I forgot that all my lifetime I have been getting one jar after another, as the many seemingly impossible things have been accomplished and joined the ranks of the commonplace. It is not the first time that my settled opinions have been torn from their rusty moorings.

"In fact, a very large part of all industry is now being accomplished with the aid of things and methods formerly considered by a great majority of the people to be absolute impossibilities, hatched in the brainless skulls of idiots.

"With your assurance that this leaflet is a correct summary of present banking affairs, I must say that my preconceived opinions along that line have received a very hard jolt, say about on a par with the


STEAM ENGINE
ELECTRIC POWER
GAS ENGINE
TELEGRAPH
TELEPHONE
ELECTRIC LIGHT
STEAMBOAT
SUBMARINES
FLYINGMACHINES
X RAY
MOTION PICTURES
HORSELESSVEHICLE
PHONOGRAPH
SEEDLESS FRUITS
AND
ABOUT EVERYTHING
ELSE WE HAVE
THAT AMOUNTS
TO MUCH
INCLUDING
OUR COUNTRY
AND ALL ITS
INSTITUTIONS
"UNCLE SAM—BEFORE YOU CONDEMN
MY BANKING SYSTEM WITHOUT
INVESTIGATION & CALL IT A CRAZY IDEA JUST TAKE
A SQUINT OVER THIS LIST & YOU WILL SEE A FEW
MORE IDEAS THAT WERE ALSO DECLARED TO BE
CRAZY BY EMINENT AUTHORITIES"

one given by the advent of flying machines and submarine boats, which I was sure were also impossibilities.

"Years ago I used to keep in touch with banking affairs a little, and, from the point of view of my earlier knowledge, I would be led to believe that it would be impossible to have banking affairs upon the basis indicated by the leaflet. But, as you say the leaflet is true, my old viewpoint must have been incorrect or incomplete and I will be glad to have you go further into the details.

"For instance, how do you get the deposits, for I notice you do not pay any interest upon them? Surely people don't leave their money on deposit without interest? I recollect that a third of a century ago it was a universal practice for banks to compete for deposits and the competition enabled depositors to get three or four percent or even a higher rate, at least upon such portions of their deposits as were of more permanent form.

"I also notice that the deposits of sixty billions are subject to check, or withdrawal, in whole or in part, at the will of the depositor. You surely don't mean they have the privilege of withdrawing the entire amount, if they so desired, in paper money or coins? You surely don't keep any such stock as that of cash money on hand to meet such a possible demand? Where could you get such a large sum? I

hardly think there is one-half that much cash money in the entire world. And would not such a run, if made and you had the money to meet it, **put your public bank clear out of business insofar as being of any use to those who had borrowed from it? Would they not be wholly smashed by the withdrawal of the deposits?**

"In the private bank system you seem to also have made many very material alterations in their field of work, as compared with what it was formerly.

"At that time, one of the first and important things for a bank to do was to coax or attract deposits from the people and **it was always essential for the banks to hold on to the deposits after getting them.** Of course, they allowed people to check or withdraw but they always had to make sure that enough deposits would come in to offset any withdrawals. But, by the statement, I see that all private banks, including all kinds of banks as I once understood them, **are now absolutely prohibited from accepting any deposits or opening any deposit accounts.**

"In fact, they seem to be occupying about the same position as private individuals formerly did who had some spare money and saw fit to loan it to others. I am not prepared to say that a private system of that nature, differing so widely from what

it was formerly, is best, or advisable, **but it appears logical at least.** They simply loan their own money to those in position to give them satisfactory security or assurance of repayment and they charge them an interest rate for the risk and service."

"I am very glad to see you find some vestige of reason and logic in our banking system. I was afraid, from the trend of your numerous questions, that you were going to condemn it in toto," said Uncle Sam.

"But I think when you fully understand how our public system is organized and how it operates, you will find it not a whit less reasonable or logical than

the private portion of the banking system, and you will find both working in harmony to bring about the best results.

"Of course it would be impossible to give anything like an exact idea of the details of either portion of the system without a general idea of the other portion, but, as we will have to make a start somewhere, let us give a little time to the private system before entering upon the larger and possibly more interesting work of the public system.

"These private banks, as we now have them, are simply groups of people, sometimes few and sometimes many in number, who pool surplus money accumulations into a common fund for the purpose of investing it in loans to those who wish to borrow it.

"For reasons which will be evident when we get into a more detailed description of the workings of the public bank system, the applicants for loans from the private banks are practically limited to those who do not have the kind of security required by the public banks. The private banks are confined to a class of loans more risky and of a character impracticable for the public banks to handle."

"For instance, Jones may be a man wholly without tangible security to offer, but he may need some money very badly. The public banks could not provide for his needs on account of his lack of proper security.

"On the other hand, Jones may be a man of unquestioned integrity and of good business ability. His neighbors and friends in general may have every confidence that he would pay back anything he borrowed. Some of them might be perfectly willing to endorse or 'stand good' for his loan.

"The local private banking concern, run by those who know him and who have the best opportunities to investigate all the attendant circumstances, may feel it was entirely safe and justified in making a loan to him.

"Satisfactory arrangements being made, Jones is granted the loan and pays the agreed rate of interest to cover the risk, expense and at least a little profit to the bank.

"Business firms of every kind, as well as individuals, without the security which would enable them to get their service at the lower rate public banks, all come to the private banks with their second quality security and are accommodated up to the measure of the banks' ability to make loans and of their confidence in the borrowers' and endorsers' ability to repay. In this way all the odds and ends of the money lending business are pretty well taken care of, far better than formerly.

"In fact, the best classes of loans made by the private banks are upon security but a slight shade less certain than that required in the public system,

and, as there is a constant competition among the private banks to get the best loans, the ones with the least chances of loss, **it results in those loans being placed at but slightly higher rates than the two per cent rate of the public system.**

"Since the private banks are lending out their own money and not deposits belonging to other people, it results in the private banks using their very best judgment and discrimination in making loans. Endorsements are closely scrutinized and there is a higher standard of financial integrity among the people in general than what existed under the old system.

"Most of the private banking concerns are purely local and co-operative in form, where the people of a community pool funds to supply local needs. Thousands and thousands of these are scattered all over the country and you can find them in every neighborhood. Usually they do not have any extensive quarters; their managing officers simply meet from time to time and transact their business at a minimum of expense.

"But some of the private banks are designed for more than a local field. They are the ones wherein great masses of funds are pooled by the more wealthy, or by a larger number of individuals.

"This class of banks takes care of the larger items of the business of the private banking field. All of the larger loans upon secondary quality security are made through them.

"A manufacturing concern may need a large sum for a short time and, although perfectly solvent, may not have the security required by the public banks. Or, having the security, it may have good reasons for not wanting it 'tied up' for the time being.

"The larger class of private banks meet that field of money lending with efficiency and comparative safety, for every phase of it is handled by those in best position to judge of its merits and who would lose in the event of making mistakes.

"We have fixed a maximum of six per cent for

the interest rate upon loans from the private banking concerns, but it is more a matter of form than of real necessity. In actual practice most of the loans bear much less than six per cent interest.

"The private banking concerns, not having any 'depositors,' are in no danger of being stranded high and dry by a 'run upon the bank,' such as occasionally happened under the old system. They have no 'demand liabilities' hovering over them like a perpetual storm-cloud, awaiting opportunity to swoop down and work havoc among the banks, and upon the public in general, by catching the banks loaded up with assets in the form of loans difficult and even impossible to convert into ready funds to meet such 'run.'

"Under the present system, the private banks do not promise or agree to do anything beyond the measure of their ability. Under the old system they agreed to do many things that were an absolute physical impossibility and their solvency depended upon not being asked to do the very thing they agreed to, and which the law compelled them to do if requested.

"It may seem rather odd to you, but the thousands of private banks and lending associations nowadays handle very few circulating bills or coins. Their work is almost wholly a matter of bookkeeping. Practically all of the private banks have de-

posit accounts with the public banks and, if they have any surplus funds on hand, they keep them on deposit with the public banks until such time as they desire to loan them out. Then they simply check them over to the borrowers, very little of what you call 'cash money' being used by them in the ordinary course of their business.

"A great majority of the private lending concerns, some of them having a very large volume of business, do not maintain any costly banking-house equipment, such as was formerly considered necessary to attract trade and throw proper safeguards around the large sums of bills and coin kept on hand.

"A present-day burglar who had any respect for the dignity of his profession, would hardly stoop so low as to waste his time and talent in such small pickings as the average private bank robbery would produce. He could do much better by stealing nickels and dimes from the shoe-shine cash register.

"The minor details and workings of the private banking concerns are regulated by various enactments under rather stringent public supervision and made to fit in with the general plan as outlined.

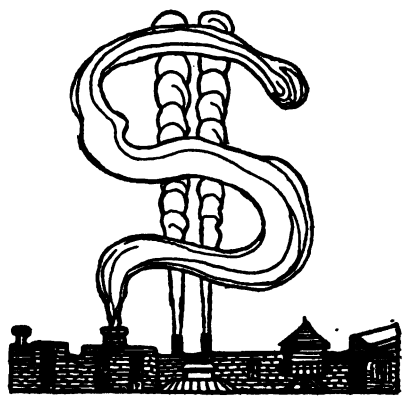
"In a broad way, the public banks work more automatically, they deal in certainties, while the private banks deal with the human equations and varied traits of character.

"The private banks place as much or more reliance in their personal knowledge of the integrity of would-be borrowers as they do upon the security they may have to offer. **In fact, a large portion of their loans are without any property security whatever, a condition that could not be safely or adequately provided for in any public banking system.**

"You will pardon me if I have skipped over or treated too briefly some of the phases of the private banking business as it exists today, but I have hurried through in order to take up the discussion of

the public banks, for I imagine you are more anxious to hear about them than about the private banks."

"You are right," replied Mr. Borden. "While I have been much interested in what you have said about the private end of the system, I think my curiosity is more aroused in regard to the public banks, not only because of their handling the largest volume of business, but on account of this statement of their condition, which seems so directly contradictory and illogical."



CHAPTER IV.

Federal Reserve Banks—Disappointment of Big Bankers—Postal Savings Banks—Inadequate Provisions—But an Entering Wedge—Earlier Operations Meagre, But Afterwards Developed—Public Opinion for Enlargement of Scope—Decision to Make It a Success.

"I suppose you will get the best and clearest idea of the present workings of the public banks if we go back a little way and sketch some of the various conditions and steps that have led up to their present organization.

"Let us go back to the date when you left this country on your trip abroad, January, 1910. Of course, I had considerable influence in shaping banking affairs prior to that time and had many laws for their conduct and regulation, but it would be needless for me to take time to describe what you will easily remember for yourself.

"Apart from the fact that it would be well to review the general course during the entire period of your absence, it happens that your departure from us was but a few months in advance of my direct

entry into the banking business, to wit: the establishment of the Postal Savings Bank.

"At about the same time, or a little later, we also placed in operation another act known as the 'Federal Reserve Bank Plan,' which was an important addition to the then existing 'National Bank' legislation. This was a bank for banks, a sort of clearing house which enabled banks to help each other when help was needed, and, under certain conditions, made it compulsory to do so.

"In many respects the new 'Reserve Banks' worked a very great improvement in the then existing banking system. It was possible for individual banks more quickly to realize upon their assets, by rediscounting them with the Reserve Banks, and they were thereby more able to take care of local 'runs' than formerly. The Reserve Bank Act also made several other changes. It took away some of the customs that the banks had previously employed. It gave them some new and additional powers which it was believed would be beneficial, and which proved to be so.

"At that time the big bankers were anxious to have some kind of a 'central bank' but they did not get exactly the kind they wanted.

"They wanted a bank of their own creation and under their almost exclusive domination. As they had it 'framed up' the people were to have hardly a

A LITTLE SURPRISE PARTY

word to say in its control or management. It was to be a bankers' bank, **exclusively controlled by the banking interests and under which the smaller banks and the general public would have had to sneeze every time the big fellows took a pinch of snuff.** It was about the most barefaced effort to create a private monopoly in banking affairs that was ever attempted in this country.

"What they got was something a little different. We gave them a form of 'central bank,' **but it was one in which the government retained the control and principal management.** We gave them one that compelled the big fellows to go to the help of the smaller ones instead of giving them power to bleed the little fellows.

"The big fellows were 'sore as boils' at not getting the kind of 'central bank' they had been scheming for, but they had to accept it, for the people had just come through a disastrous financial panic, brought about by the inadequacies of the old banking system and were determined to prevent a recurrence, if possible.

"When you come to think it over, the establishment of the Federal Reserve Banks was a pretty radical departure, **in some respects even more radical than the establishment of the Postal Savings Bank.**

"The Postal Bank was simply a venture of our

own and upon our own responsibility. But the Federal Reserve Banks were based upon capital stock which I arbitrarily forced the banks to contribute and their central management was by a board appointed by myself. Even though I was doing it for the general welfare and for the welfare of most of the banks, **it was possibly a little high-handed to walk into every bank, pick up a bundle of their money regardless of their own views, and use it to open up another bank.** The Postal Bank was a recognition of the right to get into the banking business on my own hook, but the Federal Reserve Bank Act in a way added insult to injury by assuming the power of making the existing banks furnish the working capital for another bank, under penalty of being practically forced from the banking field.

"The 'Federal Reserve Banks,' as organized under the Act, were very useful for some years. They made the old system a little more endurable while we were getting our public system developed, **but they were only makeshifts at best, and they eventually passed away, their best features being continued and merged with our Public Bank System** as it grew and developed, which brings us back to the Postal Savings Bank.

"It took a long, hard fight to secure the Postal Banks. Bankers generally were opposed to it and some of them fought it as strongly as they dared to

risk the disfavor of the general public, which was quite unanimously in favor of it."

"The Postal Bank was finally secured, but it was in such a meager and inadequate form that it appears but a travesty in comparison with the Public Banks of today. Those who were opposed to any kind of a Postal Bank had a too large measure of influence in its drafting. It was apparently framed to secure the least possible measure of results.

"The banking interests of every kind, who had looked askance upon the idea of any public competition in the fields which they arrogantly assumed to be theirs by some sort of 'divine right,' chuckled in high glee and congratulated each other on their success in having my banking aspirations shunted off into what they thought was a blind alley that led nowhere.

"So far as immediate results were concerned, the people were buncoed by the establishment of the Postal Banks, as the banking 'powers that be' of that day had cleverly calculated. If the original Postal Bank Act had been entitled 'An Act to Suppress Postal Banking' it would have more properly expressed the results of its earlier operations.

"It was loaded down with so many conditions and restrictions that it did not encourage deposits and there were few inducements to increase the number of depositors. It was about the only busi-

ness I ever started where I had to practically hang out a sign reading **'Open For Business, But We Don't Want It.'**

"At the time, there was a story going the rounds about how an innocent would-be depositor was placed under arrest by a policeman, who mistook his efforts to do business with the Postal Bank as an attempt to break into and burglarize one of my buildings.

"The banking interests, in forcing their own ideas upon the Postal Bank, were not simply content with placing all manner of straight-jackets to keep

it from growing, but made sure they would reap the benefits if it should accidentally attain any growth.

"They accomplished this end by having incorporated in the bill provisions requiring the deposits to be turned over to them at a merely nominal rate of interest. The Postal Bank was to pay two per cent for deposits and then turn right around and farm them out to the banks at two and one-half per cent. The banks would take the deposits and loan them back to the people for six per cent or as much more as the 'traffic would stand.' As a matter of principle, this was about one of the rankest propositions ever put upon the statute books. In practice, it could not result in much injustice so long as the bank would do little or no business, which the bankers had figured would be the probable result.

"It is only fair to state that much of the meagerness of the provisions of the original Postal Bank bill were due to the extreme caution and carefulness of those who were honestly in favor of my going into the business, but who thought it wise and necessary to proceed slowly at first.

"One of the principal obstacles in the way of an early growth of the Postal Bank was the fact that in those days other banks of all kinds were paying three or four per cent for deposits, in many cases even a higher rate.

"Once in a while, depositors of the private, state and so-called 'National Banks' would lose by failures, but, owing to my rather strict supervision over their affairs, the popular confidence in the ability of the banks to pay their depositors in full was sufficiently strong to hold the deposits substantially intact at the rates of interest then current. The two per cent rate of the Postal Bank did not seem large enough to attract deposits in large volumes, just as the bankers had shrewdly calculated.

"Practically, the Postal Bank was just a little collecting agency for the other banks, gathering up a few driblets of deposits which the other banks could not get or hold.

"The banking interests smiled and smiled, while the general run of the people kept wondering why the expected public benefits had not materialized.

"But the enaction of the Postal Bank Bill, while it was devoid of immediate results, was really a tremendous stride forward, in the fact that it registered a definite public approval of the idea of my entering the banking business direct. It was what you might call the seed or parent-stem from which has developed the splendid Public Banks of today."

"The passage of the bill recognized my theoretical right and duty to go into the banking business, even though the provisions of the first Postal Bank

law were so drawn as to prevent me from doing very much business."

"This recognition alone was of vast significance, for prior to that time it was the dictum of the banking interests, supported by the bulk of the financial 'experts,' that banking should never become any part of my direct activities."

"I was thoroughly vexed at the imposition that was being practiced upon the people and with difficulty curbed my impatience. But I felt sure that

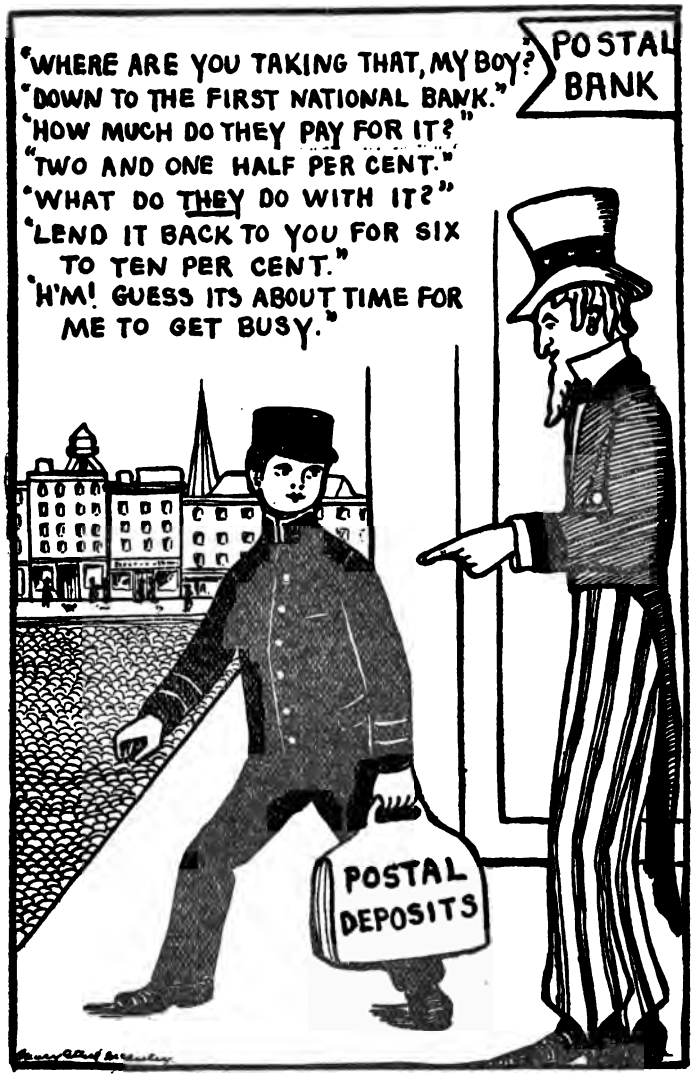
the system would afterwards be developed and expanded into a real public bank that would fully adjust the practice to the theory. **In this respect, the developments of the years have fairly borne out my hopes and anticipations.**

"In spite of all the obstacles erected, the deposits in the Postal Banks made some growth and in the course of four or five years mounted to upwards of a hundred million dollars.

"It was then I decided that the opportune time had arrived to reshape the Postal Banks so they would be something like a real public affair, rather than simply an adjunct to the private banks.

"I put the matter squarely before our people. I told them that the bank was beginning to be of some consequence as a place of deposit in spite of all its handicaps, but that we were not making the proper disposition of the deposits. I told them that it appeared absurd to turn those deposits over to the other banks at two and one-half per cent for them to reloan to the people at six per cent and even more in many cases.

"I explained to them that there was a vast field of absolutely safe investments which we ought to take advantage of. States, counties, cities, school districts and other governmental sub-divisions, where the security was unquestioned, were paying much more than two and one-half per cent upon


"WHERE ARE YOU TAKING THAT, MY BOY?"
"DOWN TO THE FIRST NATIONAL BANK."
"HOW MUCH DO THEY PAY FOR IT?"
"TWO AND ONE HALF PER CENT."
"WHAT DO THEY DO WITH IT?"
"LEND IT BACK TO YOU FOR SIX TO TEN PER CENT."
"H'M! GUESS ITS ABOUT TIME FOR ME TO GET BUSY."
POSTAL BANK
POSTAL DEPOSITS

their bonded indebtedness and would be glad to avail themselves of a lesser rate. I suggested that we ought either to invest the funds in bonds of that character or lend direct to the various government bodies upon deposit of their bonds.

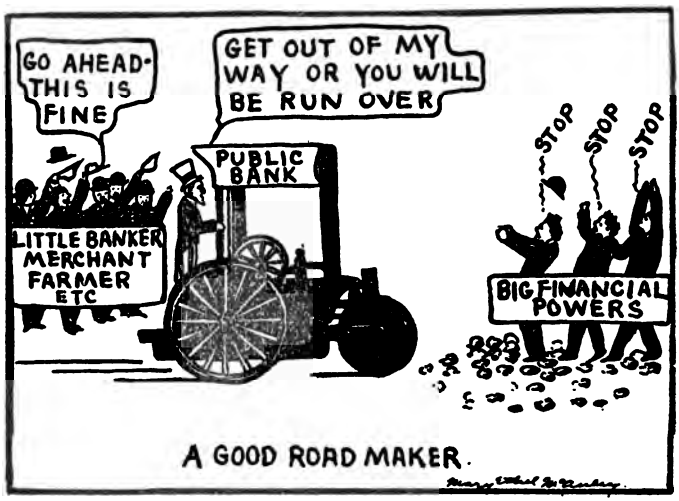
"I explained to them that if we loaned the money out at the current obtainable rate upon that kind of security, we could make a good profit on the difference between the two per cent deposit rate and the rate that could be obtained for the loans, and that such profit should go to the benefit of the government.

"If they did not want the government to make any profit out of the business, I explained to them how it would be possible to put the money out at a shade above the two per cent, thereby enabling the cities, etc., to get that much of their money service at a less rate of interest than they had been paying, thus being a direct saving to all tax-payers by lessening the amount of their public interest charges.

"I told them that I was sure we had made no mistake in deciding to go into the banking business and that it was only common-sense to go forward and make it a success just as rapidly and as thoroughly as circumstances would permit. I argued that the Postal Bank, in its then limited form, was relatively useless, but if it was permitted to grow

it would surely be of vast benefit to the people as a whole.

"I also explained that it was quite possible, at some time perhaps not far in the future and as the Postal Bank would become more developed, also to make loans to the people more directly upon their real estate mortgages, staple products, etc., so that they would directly reap the benefits of a reduced interest rate upon the money service required in the conduct of general business affairs.



"That line of argument struck home. It found a ready and cordial approval among the general run of the people, who had been wondering what was

the matter with the Postal Banking System. They could see no harm in making a success of one of their own institutions. They could see great good, if, by making it larger, it would either reduce the interest charges they had to pay or put the profits of such excess interest into the general treasury.

"Of course, the banking and money-lending interests bitterly opposed my going into the business in fact as well as in theory. But they had no arguments against it except those obviously based upon their own selfish ends, so the aroused public sentiment could not be sidetracked or hoodwinked, as it had been before.

"It was decided that we should go right ahead and enlarge the volume and scope of the Postal Bank as rapidly as circumstances would permit and develop it into a system of real Public Banks adequate to the needs of the people and framed upon such lines as would produce the greatest measure of benefits to the people in general.

"From that time onward, our policy has been to take up in regular sequence the failings and shortcomings of the old banking system and install such improvements as existing circumstances would warrant or permit. Many years have been required by the successive measures of legislation and installation involved in transforming the old, inadequate and burdensome system into the splendid system of

banking which is so large a factor in our present welfare.

"The various steps in the change from the old system to the new have been so wisely chosen that there were never any serious or injurious disturbances in our finances. **It has been the rule that each measure installed was beneficial in its result.** Sometimes it took a little longer than some of the people thought necessary to arrive at a certain desired result. Sometimes it took a little more roundabout course than was pleasing to some of the ultra-enthusiasts who, in their impracticability, thought it possible to jump almost immediately from the old to the new.

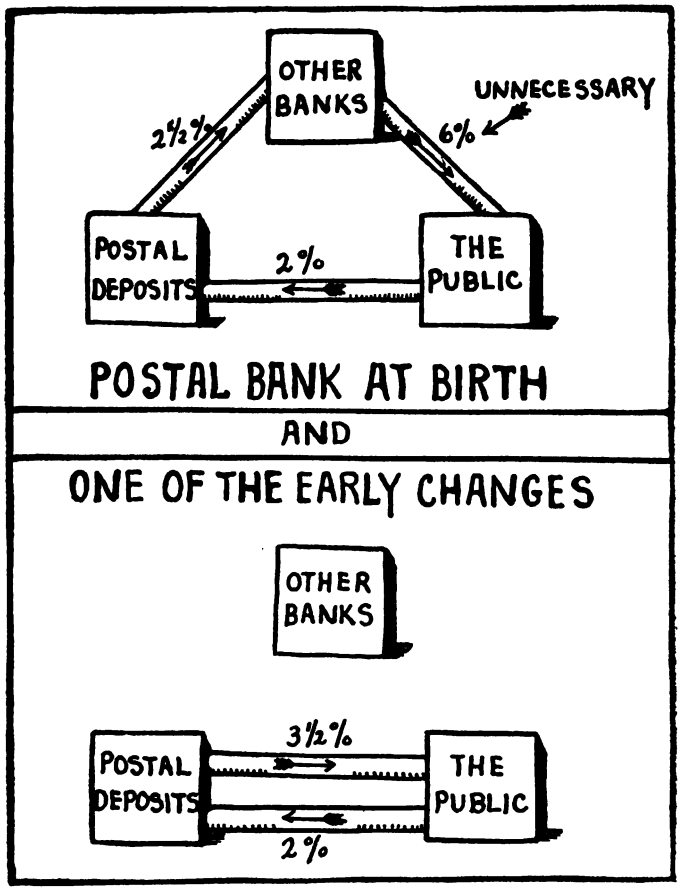
"Our policy has not been to ignore the banking machinery and methods formerly in vogue or to attempt to create a system of exchange without any semblance to that formerly existing, which would work endless confusion to the people in general. It has rather been to keep pretty closely to the old forms of exchange instruments. **The essential difference has been in transforming such instruments from being privately supplied and operated into a form publicly supplied and operated, and in greatly reducing the cost of the money mechanism."**

CHAPTER V.

Direct Investment of Postal Deposits—Public Securities, Three And One-Half Per Cent—Increase of Interest Upon Deposits From Two to Two And One-Half Per Cent—Rapid Increase of Deposits. Decrease of Deposits in Other Banks—Increase of Their Capital Stock—Other Banks Prohibited From Accepting Deposits—Mortgages and Warehouse Certificates Made Available for Public Bank Loans. Some Weaknesses of Old Banking System Laid Bare—Payment of Postal Deposits—A National Currency Provided.

"One of our first moves was to abolish the practice of depositing the Postal Bank funds in other banks at two and one-half per cent interest. We decided to invest or lend them out on public securities of the kind I have just mentioned.

"We had considerable discussion as to what rate of interest we should ask. Some thought we ought to loan it out at about one-half per cent higher than the two per cent we were paying. They claimed that would be sufficient to pay all expense involved and we should not make any profit out of the transaction. They claimed that a costless money



mechanism was an ideal program that we ought to insist upon right from the start.

"Others thought we ought to take the deposits and put them out at the highest rate we could se-

cure upon that kind of loans and suggested that we could find plenty of takers at four or four and one-half per cent. They rather agreed with the others in the theoretical desirability of a costless money mechanism, but thought it was still some distance in the future and that in the meantime the general public should take whatever profits could be made from their operations.

"In reality, we decided upon a compromise rate which partly recognized the truth in both of their arguments and which seemed to be one that presented the fewest difficulties in its installation.

"We agreed upon a three and one-half per cent rate of interest, which would result in the various communities, etc., effecting a considerable saving in their interest payment and which would also probably net the government quite a nice margin of profit from the business.

"All the available deposits on hand were speedily taken up by the bonds of various communities that had been paying a higher rate and were glad to have the opportunity of a lower rate. At that rate we could have placed many times the amount we had for disposal and we had a little difficulty keeping the various communities in a good humor. Our stock of goods was not sufficient to supply the demand, but we tried to scatter it around equitably.

"We explained our regret at not being able to

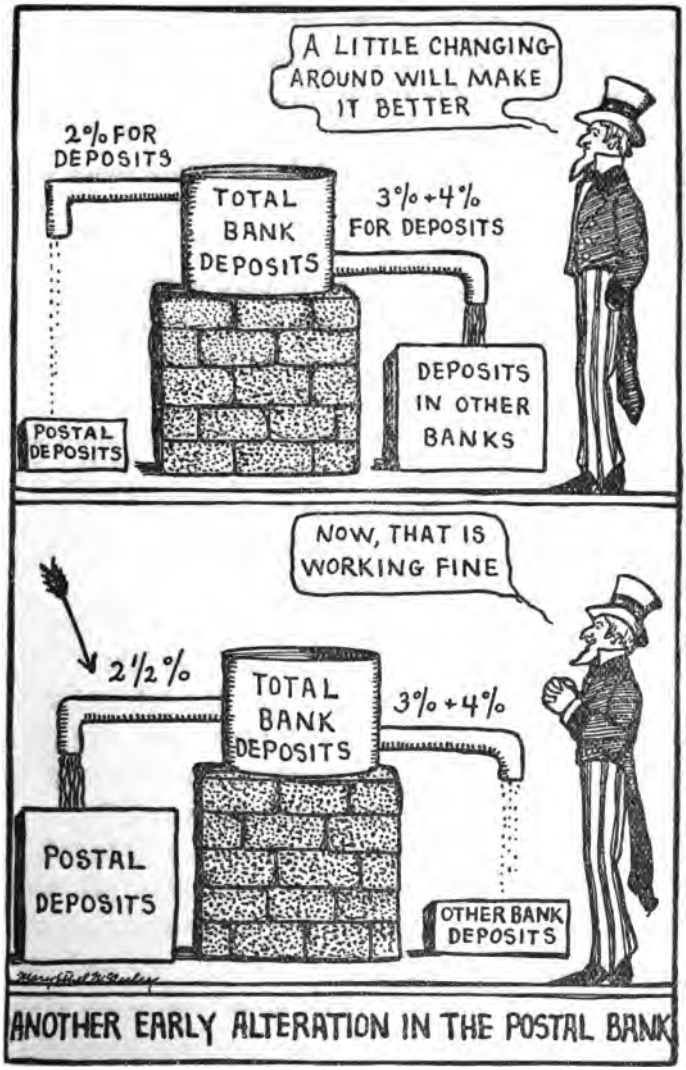
take care of all the demand, but said that we would handle more of it just as fast as we developed our Postal Bank business, and that we had plans arranged which we felt sure would result in largely increasing the lending facilities of the Postal Banks at an early date.

"Our next move was in the direction of increasing deposits for the Postal Bank. We raised the rate of interest to two and one-half per cent instead of two per cent.

"This soon brought in large additions to the deposits. They increased quite rapidly. Banks that had been paying but three per cent interest upon deposits found that their deposits were steadily being drained by the Postal Banks with their two and one-half per cent rate. The one-half per cent difference was about offset by the absolute safety of deposits in the Postal Banks. Banks paying higher than three per cent were not affected quite so quickly by withdrawals, but had to shade down their interest rate.

"As fast as the new deposits came in, we put them out as we had the others, at three and one-half per cent. The demand at that rate was still sufficient to take all we had available, although our deposits soon became of multiplied volume.

"These lesser rate loans which we were putting out soon began to have a very peculiar, yet per-


A LITTLE CHANGING AROUND WILL MAKE IT BETTER
2% FOR DEPOSITS
TOTAL BANK DEPOSITS
3% + 4% FOR DEPOSITS
DEPOSITS IN OTHER BANKS
POSTAL DEPOSITS
NOW, THAT IS WORKING FINE
2½%
TOTAL BANK DEPOSITS
3% + 4%
POSTAL DEPOSITS
OTHER BANK DEPOSITS
ANOTHER EARLY ALTERATION IN THE POSTAL BANK

fectly natural effect. **They made a 'backfire' competition in the money-lending business** which began to have a material bearing on the rates that could be secured for money by private persons or by the other banks. They found it increasingly more difficult to pay their expenses and interest upon their deposits.

"Eventually they all had to pare down the rates of interest paid to their depositors. Such a course was inevitable, but it was like **'jumping from the frying pan into the fire.'**

"As they reduced their rate of interest upon deposits, it had the effect of driving more of the deposits into the Postal Banks. Few cared to leave their savings in the other banks when the interest rates were approximately the same.

"The continued growth of the Postal Bank deposits and the increasing competition from the Postal Bank loans kept steadily drawing the interest-paying deposits out of the other banks, for soon the majority of other banks could no longer afford to offer much more than the Postal Bank rate."

"We helped the process along a little by prohibiting banks from paying more than four per cent upon deposits, then by reducing it to three and one-half, then to three per cent, then to two and one-half per cent and finally we prohibited them from paying any interest upon deposits. These success-

ive actions of ours by which other banks were specifically compelled to reduce their rate upon deposits, were more for the purpose of securing complete uniformity than as any necessity for building up the deposits of the Postal Banks.

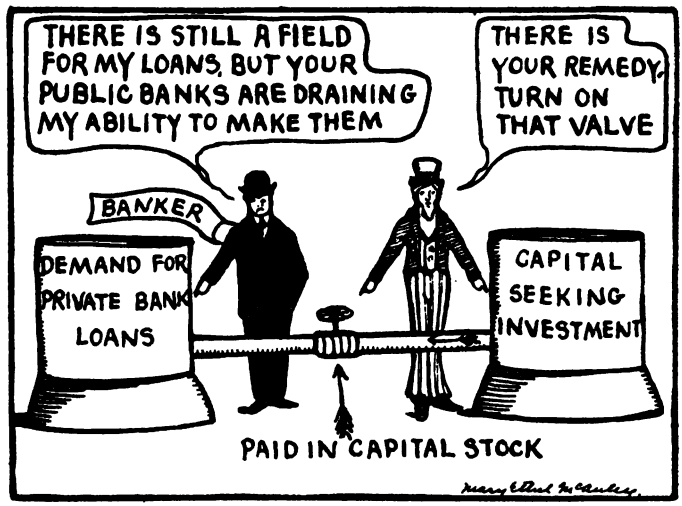
"Our deposits grew as the inevitable result of our two and one-half per cent deposit rate coupled with our three and one-half per cent loan rate.

"But we thought it wise to place some curb upon the occasional banks which might still try to keep up a high rate for deposits and depend upon reimbursing themselves by lending out upon extra risky securities or endorsements at very high rates of interest, or upon payment of large bonuses. That practice was indulged in by some of the banks under the old regime, sometimes getting through safely and sometimes causing widespread disaster by their collapse.

"We thus came into possession of all the savings or time deposits; the other banks had left as depositors only those who kept 'checking accounts' for business convenience, for, in its earlier stages, our Postal Bank did not cater much to 'checking accounts.'

"As the other banks were losing their deposits, **it resulted in a steady increase in their paid-in capital stock.** Banks, in general, became more like what

some of the banks were even under the old regime. They had a large capital to lend out and not so much deposits.



"The back-fire competition of the public loans released large volumes of capital that had previously been used in bond and mortgage investments and it sought a new outlet of investment. Bank capital stock afforded a good field of investment as there were still plenty of opportunities to loan money. Bank capital kept increasing with the decrease of deposits, as the field of investment was both inviting and profitable. Our Postal Bank gradually became a large holder of bonds and mortgages as security

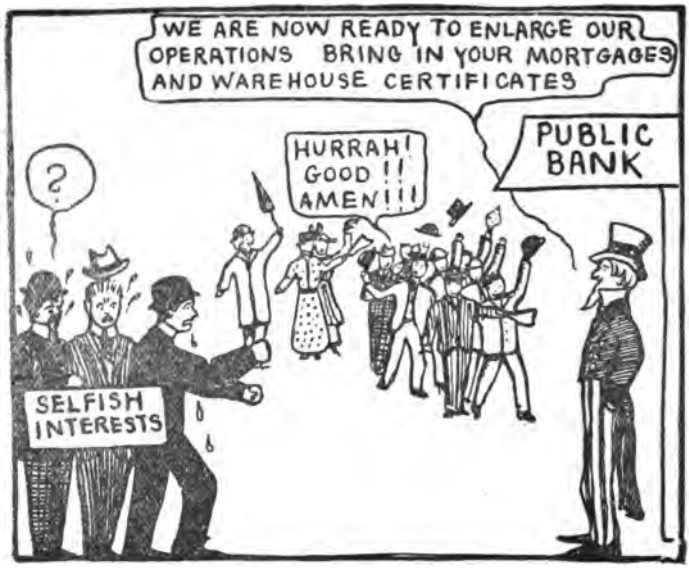
for loans. The former holders of the bonds and mortgages invested part of their holdings in direct productive industry, part in the form of private bank or other stocks and allowed the remainder to become 'deposits' in our Postal Banks."

"A little later on, we threw the Postal Bank wide open for 'checking accounts' as well as 'savings accounts' and, in a year or so more, **we took action prohibiting other banks from having any deposit accounts.** It was hardly necessary to make it compulsory, as the great bulk of people were anxious to place their 'checking accounts' with our Postal Bank. But we greatly simplified matters by definitely taking all deposit accounts away from the other banks and **giving them to understand that from then onward they must do business with their own capital** and not with other people's deposits, either 'time' or 'sight.'"

"At about the same time, we also **enlarged the class of securities that were acceptable for postal loans.** We made it possible for corporations, partnerships and individuals to secure a margin of loan upon their real estate holdings and also upon warehouse certificates of staple products."

"This brought the beneficial effects of our lower rate loans very forcibly to the attention of all and caused widespread rejoicing throughout the land."

"Even the most obtuse of those who would not



appreciate or admit the beneficial effects that had previously arisen through permitting communities, etc., to get a lower interest rate, were glad to 'see the light' when it came directly home to them in the form of an opportunity to get some of their own money service at a lesser rate of interest."

"Our Postal Bank by that time was in possession of practically the entire volume of deposits formerly held by all the banks. Speaking from memory, I think we had about fifteen billions of deposits. This amount was steadily increased until we now have

approximately sixty billions, as you noted by the leaflet."

"We also had on hands in our vaults at that time practically the same 'cash' holdings that the other banks had kept on hand, or the amount they would have had if the Postal Bank had not been instituted."

"We did not loan out the full amount of the deposits during the time when we were developing the Postal Bank up to the fifteen billion dollar stature referred to, but always kept what was called a 'reserve fund' in cash, meaning gold and silver coins and 'legal notes.'"

"The purpose of this was two-fold. First,—To have on hand sufficient funds to take care of withdrawals. Second,—As a means of regulating the volume of loans."

"The first of these, while it was in line with the traditions of former banking, was largely a myth under our Postal Bank, which was growing, and the deposits steadily exceeding withdrawals. It would have required little, if any, 'reserve' to take care of withdrawals, **for the people considered the Postal Bank, secured and endorsed by all the power of the government and the wealth of the nation, about the safest possible place to keep their funds, even in times of war, or other extreme unsettlement of affairs, either at home or abroad in other nations.**"

"Under the old system of banking there was less confidence in the security of banks, and, of course, there was always a larger probability of withdrawal demands being made. They were legally supposed to be met, but in practice the legal obligation was sometimes ignored. You will remember that in the financial panic that broke loose in the summer of 1907, a couple of years before you went away, the banks quite generally refused to pay their expressed and implied obligations by suspending cash payments.

"The second purpose of keeping a 'cash reserve' in our Postal Bank—to serve as a means of regulating the volume of loans or credits extended,—was based upon a much more real and vital factor.

"It would not have been wise to loan out the entire amount of deposits as fast as they came in, permitting the loan to become a re-deposit, ad-infinitum, for this would simply have resulted in an unlimited expansion of loans or credits; and this in turn would have made our entire volume of money mechanism very unstable in value and would have caused general disaster by such inflation and instability.

"Under the old system of banking, the volume of bank loans or credits was kept somewhat limited by the available amount of gold and silver coin and 'legal notes' accessible for 'reserve' purposes. There

was a sort of mathematical limit beyond which it was impossible to extend bank loans or credits.

"Every dollar of deposits and loans 'locked up' a portion of the coin or legal notes and, of course, the volume of coin and legal notes available had a material bearing upon the volume of bank credits and loans. The volume of gold and silver coin, in turn, was kept limited partly by the amount of bullion produced, partly by its accessibility to the mints and partly by its uses for other than money purposes. The volume of paper notes available as 'bank reserve money' was kept limited by law.

"The whole machinery for regulating the volume of bank loans and credits was very crude under the old banking system. It was not framed upon correct lines and its results were largely a matter of chance and 'pot luck.' In comparison with the exact, systematic and smooth-working method by which we now regulate the volume of loans or credits, the old-style method would cut a very sorry figure.

"Nevertheless, it was the kind we had in operation at that time, and, in taking over and nationalizing the banking system, we simply continued somewhat along the old lines until we could gradually replace with newer and more modern methods of determination. But, later on, I will explain this a lit-

tle more fully, as it is one of the most important features of our present financial system.

"At the time when we placed our Postal Banks open for the 'checking accounts' we were a little puzzled whether to pay interest upon them or not. We finally simplified the whole matter by **placing all deposits upon an equal footing, paying interest upon all and making all subject to check.** It made a little more work in keeping track of interest computations, but it enabled us to avoid a lot of confusions which a complex double system would have entailed.

"The revenues being received from loans were far more than sufficient to pay all the expenses and it seemed that those in active business, who could not afford to keep their money tied up in permanent deposits, ought to share in the distribution of interest, in proportion to the amount of their average deposit, just as well as their more fortunately situated neighbor. Such action seemed entirely fair and few ever denied its justice.

"At first glance, you might think it was a very radical move to make all accounts 'payable on demand' or 'checking accounts,' but in reality it was more of a matter of simplifying and harmonizing the system rather than of material bearing on its actual operations.

"Under the old system not only were all the

A SAMPLE PAGE

FROM THE "SAFE AND SANE" ARITHMETIC USED BY THE OLD BANKING SYSTEM

A	DEPOSITS	$10.00	$50.00 - DEPOSITS PAYABLE ON DEMAND
B	"	$10.00	
C	"	$10.00	
D	"	$10.00	
E	"	$10.00	

F	GETS LOAN OF	$9.00	$45.00 - LOANS (FOR VARIOUS PERIODS OF TIME + AGREEMENTS TO RENEW)
G	"	$9.00	
H	"	$9.00	
I	"	$9.00	
J	"	$9.00	$5.00 TOTAL CASH ON HAND (BEING ALSO THE RESERVE FUND)

PROBLEM — FILL ALL FIVE GLASSES WITH THE ONE GLASS OF MATERIAL, AT THE SAME TIME, WITHOUT WRECKING F-G-H-I-J, OR REDUCING THE RESERVE FUND.

N.B (HERMANN + KELLAR THE GREAT MAGICIANS, BOTH GAVE IT UP.)

'checking accounts' subject to demand but the savings or time deposits were all payable, by giving notice, within a very short time.

"But those supposed provisions were simply phrases upon the statute books. In reality they were a physical impossibility. At any time a small per cent of the 'checking account' depositors alone could have drained the entire 'reserve' and all other 'cash' out of the banks, simply by asking for a fulfillment of the statutory provision.

"Sometimes it required a great deal of scheming and manipulation, bluffing, coaxing and intimidation on the part of both the old banks and the government to enable the banks to dodge or sidestep a fulfillment of their expressed and legal obligation to pay. All manner of substitutes and subterfuges were employed and, if the demand finally became too general or too insistent, they simply repudiated their obligations and made their creditors accept their 'promise,' instead of doing what they had agreed to do and what the law said they must do.

"It seems strange that the statute books were so long burdened with a law that involved the absurdity of accomplishing the impossible. It was certainly a farcical process to give the banks the privilege of promising impossibilities and then apparently make all industry and the welfare of the nation

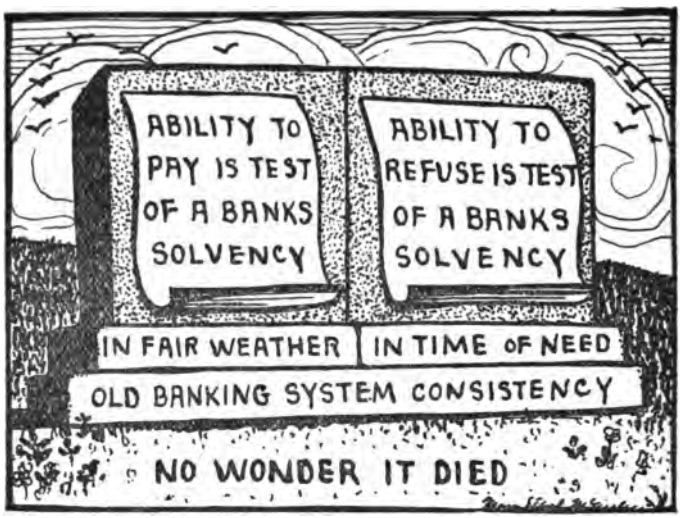
dependent upon the probabilities of their not being asked to fulfill their obligations as agreed upon."

"If repayment of depositors, 'on demand' or even within a short period, was a wise or necessary requirement, then it should have been possible of fulfillment. If impossible of fulfillment, then it could not have been a wise or necessary requirement."

"A 'reserve fund' as employed by the old system of banking, was a species of gambling on a gigantic scale, somewhat similar to the practice of stock market marginal gambling wherein people would sometimes agree to sell or buy more stock than was in existence. It seems strange that people could discourage common forms of gambling and yet permit their exchange system to be handicapped by such a vast gambling possibility."

"It was directly contrary to the policy pursued by general business interests. For instance, a manufacturer would never think of incurring an obligation in the form of a 'deliverable on demand' order equal to all the product that he might be able to turn out in the next one or five years. His business career would be very brief, indeed, if he attempted to carry out such a hazard."

"The prudent business man would be very careful not to promise to deliver more than he could produce and only so fast as his production would per-



mit. He would never let his promises get ahead of his capacity to perform.

"The inadequacy of 'reserve funds' as a guarantee for deposits was quite forcibly summed up by one of my old banking friends in the remark that **'they were useless when not demanded, unattainable when there was any real demand and in the last analysis were only to be used in paying the receiver's expenses when the bank went into insolvency.'**

"However, under the old system, no matter what the personal or legal obligation between the banks and the depositors, under certain circumstances, such as prevailed when large numbers of the depos-

itors were clamoring for their funds, a **'suspension of payments' was an imperative measure to protect the general public from disaster."**

"Uncle Sam was interrupted by Mr. Borden who said, "In reading financial history years ago, I was often impressed with the fact that a 'suspension of payments,' such as was resorted to by banks in times of great emergency, usually brought about a better condition of affairs and helped to prevent far greater disaster. Sometimes bankers would be quoted as saying that **'it would have been better if suspension had been sooner.'**

"The so-called bimetallists, monometallists and 'fiatists' were always wrangling and jangling over the necessity or advisability of having all forms of paper money made redeemable in coin, the bimetallists holding that it should be redeemable in either gold or silver, the monometallists in gold alone, while the 'fiatists' held that it was absurd to redeem in either."

"But not even the most rabid of them would deny that banks should be compelled to pay their depositors in some form of money, if requested, and it always seemed to me that every suspension of bank payments, requiring banks to pay out and exchange credits and debits instead of cash money of any kind, was an admission that the 'fiatists' had a large measure of truth back of their position."

"Yes," resumed Uncle Sam, "it was in truth an admission, though perhaps almost unconsciously, that their position was absolutely sound and correct in principle, even though many of the 'fiatists' favored plans of action and operation that would not have been wise or profitable to install."

"The fundamental position of the 'fiatists' was that money, meaning the entire medium of exchange, whether in the form of coins, bills, bank credits, bonds or otherwise, was a bookkeeping proposition in a modern or civilized nation, and that the question of having an adequate and efficient exchange medium was a question of scientific bookkeeping by recognized and duly constituted public authorities. They believed that a modern exchange system involved the creating, maintaining and exchanging of a proper volume of debit and credit accounts rather than a use of coins, bills, or other material things.

"The 'fiatists' held that coins, or paper currencies, were justifiable only as conveniences, that they should only represent a certain volume of debit and credit accounts created, but should never be used as a means of determining what volume of debits or credits should be created or maintained.

"In former years, a few of the people were openly and avowedly 'fiatists.' The great mass were 'fiatists' almost instinctively and without a realiza-

tion of its full meaning. A few were opposed to fiatism, but found it increasingly difficult to harmonize their opposition with the fact that fiatism could always be relied upon to restore order in times of great need or emergency, such as when the systems of metallic coins, bills and bank 'obligations to pay' had collapsed.

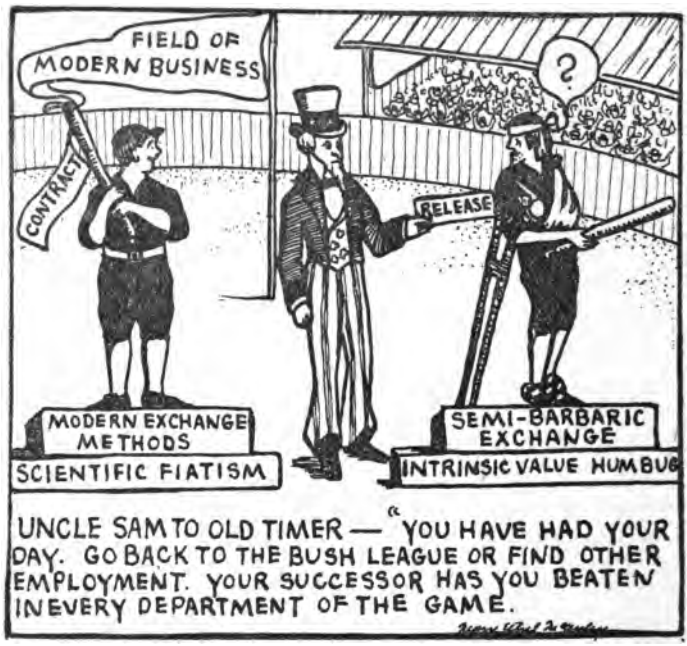
"Much of the former opposition to the fiat theory of our exchange system was due to its opponents usually claiming that it provided for an unlimited issue of money. It was claimed that 'fiatism' taught that it was only necessary for the government to do the issuing and that it would be of full value and usefulness, regardless of how much might be issued.

"Cartoons were drawn in which I was pictured as operating a printing-press, running off and handing out to each and all a big bale of money, inferring that it was an easy way to make everyone rich and above need of work or worry.

"Such construction was far from the real truth of what the fiat theory really provided for, but I will admit that it was in a measure justified by some of the absurd propositions put forth by so-called 'fiatists.'

"To show how ridiculous some of the propositions really were, I recall one wherein it provided for an annual issue of money up to the total of

public expenditures, thus hoping to have the people exempt from all burden of taxation, not taking into account that such subserviency of our medium of exchange would upset its usefulness and work untold disaster and injury to all."



"As the real truths of fiatism became separated from the grotesque and erroneous measures sometimes put forth by those who were striving to provide an escape from the old system, they became

more generally accepted, until nowadays nearly everyone is a 'fiatist' in theory, practice and belief. But I am getting ahead of my story. We were speaking of the ability of banks to pay their depositors under the old system.

"It would have been impossible for the banks to have paid more than a small portion of their depositors off under the most favorable circumstances and the paying out of their 'cash on hand' would have destroyed the basis upon which their loans were created and regulated. Under such circumstances it would also have been impossible for the borrowers to repay their loans when agreed upon, or, in fact, at any time so long as such a condition would exist. To attempt to get money **from them to pay to depositors would simply bring on general bankruptcy and prostration of industry.**

"As stated, we made all our Postal Bank deposits 'payable on demand' at any time. To accomplish this, to provide a means of doing what the banks had formerly promised, but could never perform, **we provided for the issuance of a genuine National Currency, full legal tender for all debts, public and private, in convenient denominations and in volume up to the maximum amount of the deposits.** These notes were in addition to the other forms of paper money then in use.

"As a matter of history, we did have a lot of such

notes printed and stored away to be ready for demands, but as a matter of practice, the people never wanted many of them, or any kind of cash money, except to the most limited extent. Our bank was so much safer from theft or destruction than private safes, cash-drawers, pockets, old fruit cans, chimney corners, bureau drawers and other hiding places, that the people were perfectly content to have their funds left in the bank. A 'checking account' with our bank was the most ready and convenient form for making all payments of large size and was preferred to 'cash' for such purposes. Cash was used only for small retail purposes, where the inconvenience and risk of carrying around small change was considered less than the trouble of making out and keeping track of checks for the innumerable small purchases that were constantly being made.

"Being able to pay off our deposits when requested, it brought about a condition wherein the people did not want to withdraw.

"Under the old system, depositors were oftentimes demanding their deposits because they felt sure that the banks could not pay all. Each wanted to get on the safe side by drawing out his funds before others drained the banks. This often caused a solvent bank to be wrecked before the 'run' would be stopped. The withdrawal of the deposits and the wrecking of the bank spread havoc among the bor-

THE OLD WAY — PRIVATE BANK
CUSTOMER - "TELL ME THE TRUTH. CAN YOU PAY OFF ALL YOUR DEPOSITORS AS YOU PROMISE?"
CLERK — "N-N-NO! IT IS ONLY A BLUFF."
CUSTOMER - "GIVE ME MY MONEY."
CLERK — "GET OUT! BANK WRECKER! SCOUNDREL!!!"
THE NEW WAY — PUBLIC BANK
CUSTOMER - "TELL ME THE TRUTH. CAN YOU PAY OFF ALL YOUR DEPOSITORS AS YOU PROMISE?"
CLERK — "CERTAINLY, EVERY DOLLAR OF IT. WANT LARGE OR SMALL BILLS?"
CUSTOMER - "DON'T WANT TO WITHDRAW AT ALL."
CLERK — "SUIT YOURSELF. NO DIFFERENCE TO US."
PAYMENT OF DEPOSITORS.

rowers, who, being compelled to repay their loans post-haste, would oftentimes have to make great sacrifices to secure the needed means of repayment.

"To forstall any possible emergency that might arise from the fact that we still retained the old method of regulating the volume of bank loans, we provided that the new currency should not be available as 'reserve money' for our Postal Bank. In that respect we put them in the same class as the notes issued under the old 'National Banks' and the notes of the 'Federal Reserve Banks.'

"They could not be used to 'pyramid' the bank loans by redepositing and using as a reserve margin for further loans. Until we could make arrangements for a better system of regulating the volume of loans, we could not permit any material interference with the workings of the then existing method, however imperfect it may have been.

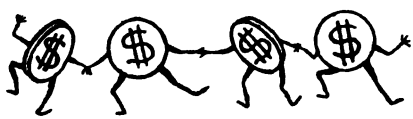
"In getting possession of the deposits, we had also come into possession of the stock of coin and legal notes which the other banks formerly had in their vaults. We simply kept it for the time being as our basis for regulating the volume of bank loans, just as the other banks had done."

"Wait a minute! Wait a minute!" interrupted Mr. Borden. "It seems to me that there is something at fault with your argument at this point. So far the story of your progress seems to have been perfectly

logical, but there seems to be something wrong with your idea of giving the depositors a right to withdraw their deposits, even though they might never ask to have that obligation carried out."

"It doesn't seem altogether clear to me how your system could be solidly based if it permitted a withdrawal of deposits, for would that not have compelled you to bankrupt your borrowers by forcing them all to pay back their loans, without opportunity of extension or reborrowings? Suppose the depositors had used their option and withdrawn their deposits and kept them in their own private methods. Would your system not have been smashed just as certainly as the old system would have been under like circumstances?"

Here the conversation was broken off by the entrance of Miss Columbia, who said, "I don't like to interrupt you men, but I have already called a couple of times for you to come out to dinner. I guess you were so much interested that you never heard me. Please come right along before everything gets cold and before some of the hungry and impatient boys take a notion to clean up the table without waiting for you."



CHAPTER VI.

Stabilizing of Bank Loan Volume—Old Methods Inadequate—New Ones Adopted—Metallism a Hindrance—Opposed to Full National Independence. New Methods Brought Full Independence—Bank Loans Freed From Dread of Withdrawing Deposits—Average Price Stability—Quantitative Theory. Its Truth.

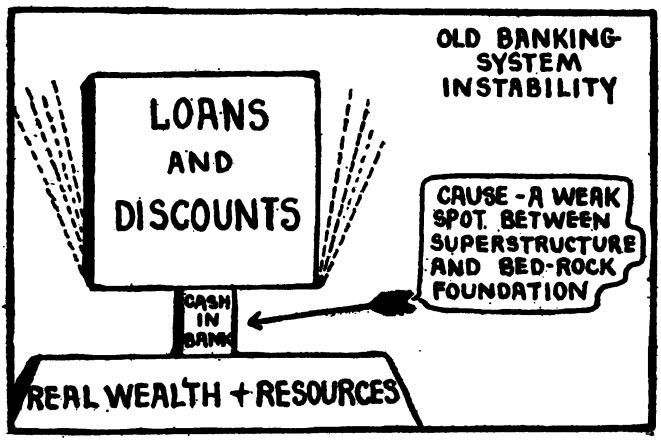
After dinner the conversation was resumed, Uncle Sam taking up the subject at the point where it had been interrupted.

"At that time in our progress, we had simply nationalized the formerly existing banking system. We had taken it over into collective management and relegated the former banking institutions to the position of private money lenders. We had cheapened a portion of the money service in use by the difference between our three and one-half per cent loaning rate and the rate which otherwise would have been paid for it by the borrowers.

"Now that we had come into possession of the banking system by easy and logical stages, we began to improve and develop it to greater usefulness and efficiency.

"One of the very first subjects we took up for adjustment was that which dealt directly with your questions in regard to our loans being based upon a margin of cash holdings, practically as under the old system of banking.

"We realized that it was an absurdity under the old system to base the loans upon a cash margin which was liable at any time to be withdrawn by the depositors.



"We realized that, inasmuch as such process would involve the accomplishment of an impossibility, it could not be in accord with sound or correct economic principles.

"We realized that it would not alter the scientific status of the case to say that there would be a lessened possibility of withdrawals under the public

system, and that it would be very illogical to claim that such condition would justify our acceptance of the error.

"We also realized that the old system of deposits and loans upon a margin of 'legal reserve' was very unstable and unsatisfactory. **We could never be sure of how much reserve money would be on hand or obtainable at any time.**

"The production of the precious metals was a very uncertain factor. Their production had a wide range of variation, especially when considered in periods or decades of time, which comparison was vitally necessary in order to harmonize with business calculations and obligations requiring many years for consummation.

"The quantity of precious metals used in the arts, etc., was also a very uncertain factor and hard to calculate or depend upon, so that, in addition to the uncertainty as to how much of the precious metals would be **produced,** there was also the doubt as to how much of the total production would become **available** for monetary uses.

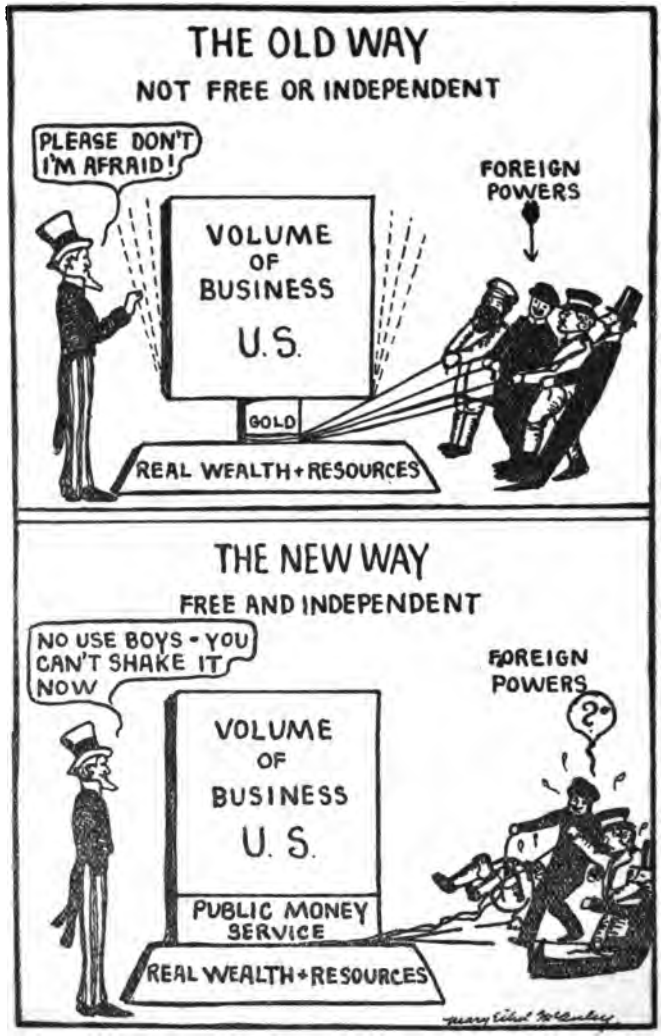
"The demands of other nations upon the total supply of metallic money was also subject to sudden and extreme variations. Every action they took affecting the so-called 'efficiency' of the metallic moneys and legal reserve notes, such as permitting banks to use less for 'legal reserve' purposes or re-

quiring them to use more, had a very direct bearing upon our own domestic affairs.

"Every action taken by other nations, that retired the precious metals from monetary uses, say for the purpose of strengthening their 'war chests,' or every action taken for the purpose of depleting those 'war chests,' thereby forcing additional volumes of the precious metals into monetary use, had a very direct bearing upon the workings of our own financial system under the old regime.

"We all realized that it was **dangerous and unscientific to allow so important a matter as the volume of our loans to be determined by the relative scarcity or abundance of either gold or silver, or by both of them,** and we could easily see that the hazard was not **lessened** by the existence of an additional volume of 'legal reserve notes,' for the volume of those notes was never adjusted to meet the varying needs of business.

"We also realized that it was not only dangerous and unscientific, but **exceedingly unpatriotic to permit our domestic affairs to be dictated or controlled so largely by factors outside of our jurisdiction and control.** We felt certain that our monetary and financial system should rightly be based upon the wisdom and intelligence of our own people, not subject in any material sense to be overthrown or han-


THE OLD WAY
NOT FREE OR INDEPENDENT
PLEASE DON'T I'M AFRAID!
FOREIGN POWERS
VOLUME OF BUSINESS U.S.
GOLD
REAL WEALTH + RESOURCES
THE NEW WAY
FREE AND INDEPENDENT
NO USE BOYS - YOU CAN'T SHAKE IT NOW
FOREIGN POWERS
?
VOLUME OF BUSINESS U. S.
PUBLIC MONEY SERVICE
REAL WEALTH + RESOURCES

dicapped by the foolish or selfish actions of other nations.

"Hence we began to figure out just how to establish a better method of determining the volume of loans than the former method, which was subject to control by so many uncertain and irresponsible factors.

"In making such replacement, we had to deal with questions of supreme importance in monetary science, but which have only within recent years been given anything like an adequate consideration.

"As you will recall, we had in our banks at that time, roughly speaking, fifteen billions of deposits bearing two and one-half per cent interest and we had outstanding loans of about thirteen billions bearing three and one-half per cent. We also had on hand coin and legal notes to the amount of about two billions.

"Back of the loans and pledged for their repayment, we had bonds and mortgages equal to three or four times the volume of the loans. Hence it was but a question of calculation to figure out what proportion of loan to the security would be sufficient to provide the same volume of bank loans as we were then floating upon a 'cash reserve' margin.

"We made such calculation, and we then abandoned the old for the new method of determining the

volume of loans to be made from the public banks. **This was a fundamental movement, installed without any jar or disturbance to business, but the wisdom of which has become increasingly apparent with the passing of years.**

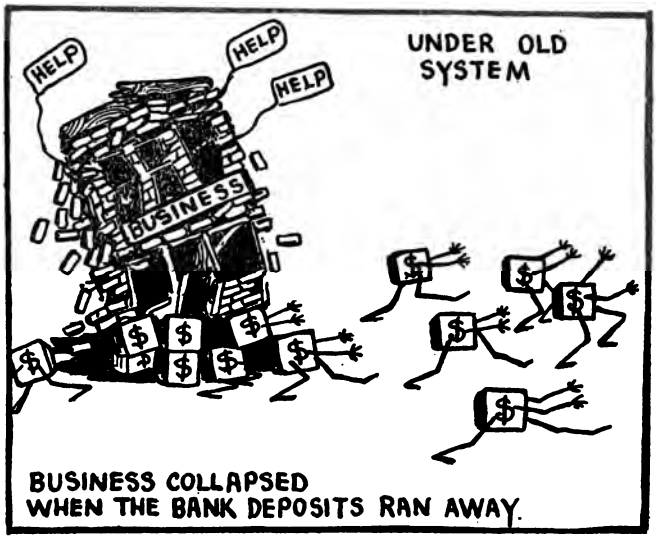
"From that time onward, the volume of loans was regulated with almost automatic precision. No longer were the people thrown into alternate chills and fevers, as the production of gold and silver ebbed and flowed.

"Our people could go to bed at night absolutely indifferent as to whether Kings, Czars or Kaisers loaded up or depleted their war-chests. An exportation or importation of the precious metals was simply a movement of commodities and had no more bearing upon our exchange system than a like movement of wheat or steel would have had.

"Business in general and borrowers in particular were freed from the dreaded danger of deposits being withdrawn from the banks, thereby causing disaster to their own affairs.

"Under our system, we soon made it not only possible for deposits to be withdrawn, in cash, if the depositors so desired, but we arranged it so that the **borrowers would not be wrecked by the withdrawal. We really divorced the loans from their dependence upon the deposits.** You will understand this more clearly as we get further along in our story.

"I can hardly imagine any condition of affairs which would induce the people to take such course, but if every dollar of deposits were withdrawn and stored in private safety places, our loan volume would continue unimpaired."



"But how did you arrange it so that the volume of loans would be proportioned rightly from time to time?" questioned Mr. Borden. "I can easily see how you adjusted matters at the time of making the change, for that would be simply a matter of calculating what per centage of loan to security was suffi-

cient to provide for the total volume then existing. At that time you had to provide for loans of about thirteen billions.

"But how did you provide for its after regulation? How did you provide so as to have the correct amount of loans at all times, approximately speaking? How did you keep the volume from becoming too large or too small, or, in reality, how could you tell when the volume was too large or too small? How did you decide, for instance, whether to limit loans to twenty, thirty, forty, fifty or sixty per cent of the security?"

"I see that you readily grasp the idea that in taking over the old system and temporarily continuing the former method and volume of loans, we had not altogether gotten rid of former unsound and unscientific methods of fixing the volume," replied Uncle Sam.

"Under the old system, at times the supply of loans obtainable was too restricted and business interests would be thrown into serious troubles by inability to borrow sufficient for their needs, even upon the best of security. Prices would fall and general depression would ensue.

"At other times, the supply of loans available was too liberal, loans could be placed to a much larger proportion of the security, speculation was encouraged, business went booming upon a false

basis of rising prices and soon would come the inevitable smash induced by such rising prices and consequent unsettlement of the equities of money obligations and contracts.

"The correct guiding principle for regulating the volume of loans became clearly defined when we analyzed the reasons for any loans of money or bank credits, or, in fact, the purpose of having any exchange medium.

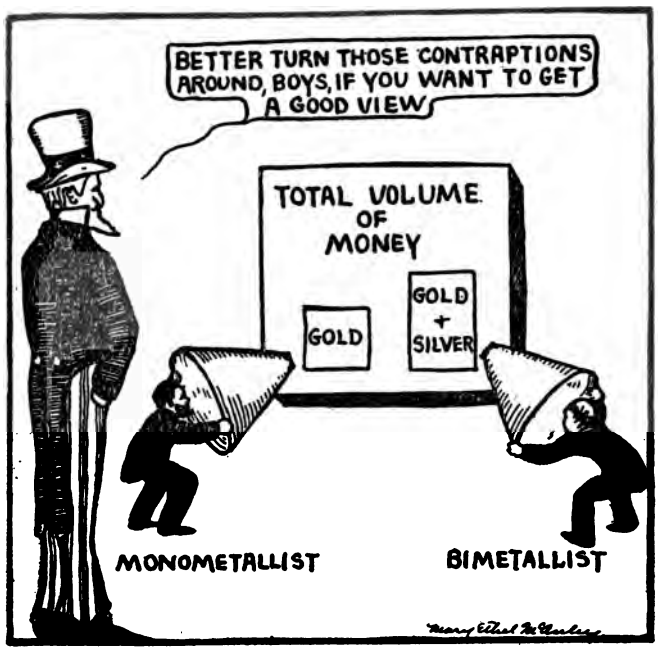
"The primary purpose of all forms of cash money, bank credit and other forms of exchange medium, was to assist in and make possible the movement of the various articles of wealth, as they were passed along from person to person in the successive stages of their production, distribution and consumption.

"The volume of such exchange medium thus became a sort of artificial commodity which would purchase all things, and which could be purchased by all things, according to the relative scarcity or abundance of such exchange medium, when compared with the volume of things to be exchanged.

"Its market price, or exchange value, was determined by the natural operations of the law of supply and demand. Comparatively speaking, if the volume was low, prices were low, while if the volume was high, prices would be high.'

"That was what was called 'the quantitative

theory of money' away back in the days when they were somewhat heatedly discussing the coinage of gold and silver, was it not?" inquired Mr. Borden.



"Oh, yes! the same thing," replied Uncle Sam. It was absolutely true then and it is true today. **The difficulty and confusion of thought in former years arose from the fact that a major portion of the factors involved were usually ignored in the discussion.**

"The monometallists and bimetallists alike fell into the same error of viewing money in the restricted sense as only being the amount that was secured by the coinage of the precious metals, ignoring the real truth that **the great bulk of the effective, price-making money volume of the country did not consist of either gold or silver, but was 'credit money'** created and maintained through the operations of banking and bonding.

"Under such conditions of inadequate understanding of what the volume of money really included, the quantitative theory apparently suffered many very hard jolts.

"Limiting their viewpoint to metals alone, the disputants could take turn about and conclusively prove, by reliable statistics, that prices had risen when metal volume was comparatively falling, and that prices had fallen when metal volume was rising, just the reverse of what the quantitative theory was supposed to teach.

"Had they broadened their investigations and viewpoint so as to include the **entire** volume of money, the quantitative theory would have shone forth in all its brightness as a Pole Star of guidance."

CHAPTER VII.

Determining Course of Prices An Important Work—Adjustment of Loan Proportion to Maintain Prices Steady—Simplicity of Process—Power to Fix Prices is a Vast One—Existed Under Old System, But Controlled By Accidents or Selfish Private Interests—Oftentimes Operated Against Public Welfare—Fluctuation of Individual Prices Beneficial. Average Stability Requires Public Control.

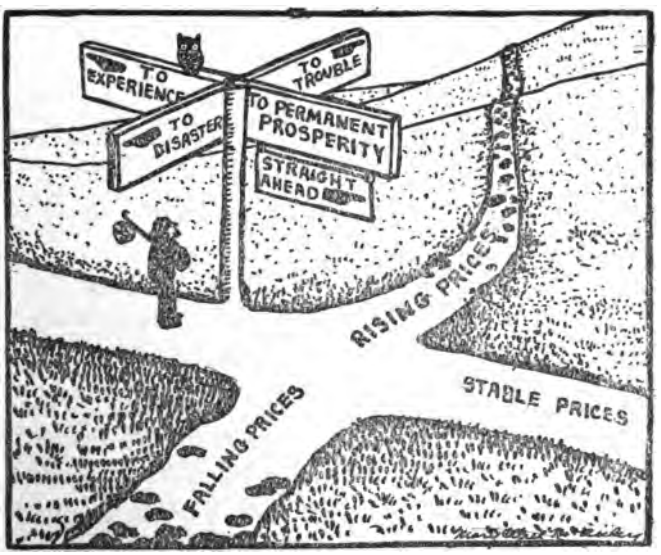
"Our present system is based upon a full recognition of the quantitative theory of money. We believe that only by a proper adjustment of the supply of money loans or credits to the demands can we arrive at a stable medium of exchange."

"But it was apparent we could not preserve a stability by simply making loans without any regard to the effect that individual loans would have in fixing the value of the total volume which should be created or maintained. On the contrary, it was apparent that the proportion of loan or credit extended to individual or corporate borrowers should be subordinate to the needs of the whole people for a stable value money."

"A stability in average prices of the very things which the exchange medium was to help move logic-

ally became the only true guide or indicator of the volume of money medium that should be created or maintained."

"We calculated the average prices of a large number of the leading products, each considered in proportion to its importance. The larger items of commerce had greater weight in such calculation than the smaller ones."



"Using the average prices then existing as our starting point, it has been our constant aim to regulate the volume of loans and credits so as to maintain such stability indefinitely."

"Our expert statisticians are constantly employed in ascertaining the movement of average prices. Their work is really one of the most important details of our banking and financial work, as the aggregate volume of loans, or credits, are in large measure dependent upon the results of their calculations."

"When they find that average prices are materially or steadily rising, it is proof that there has been an alteration in the relative supply and demand for loans or credits, or money, if you prefer to use the shorter term to include all medium of exchange."

"Such rising average prices would indicate that money was **too redundant,** and we would restore the equilibrium by **reducing** the proportion of loan to security pledged."

"If average prices were falling, it would indicate that money was **too scarce,** and we would restore the equilibrium by **increasing** the proportion of loan to security pledged."

"In practice this equilibrium or adjustment of supply and demand is very easily accomplished. A slight change in the proportion of loan to security pledged does not materially affect the calculation of any prospective borrowers, but, in the aggregate, it has sufficient power to preserve the amount in such volume as will maintain an average stability of prices."

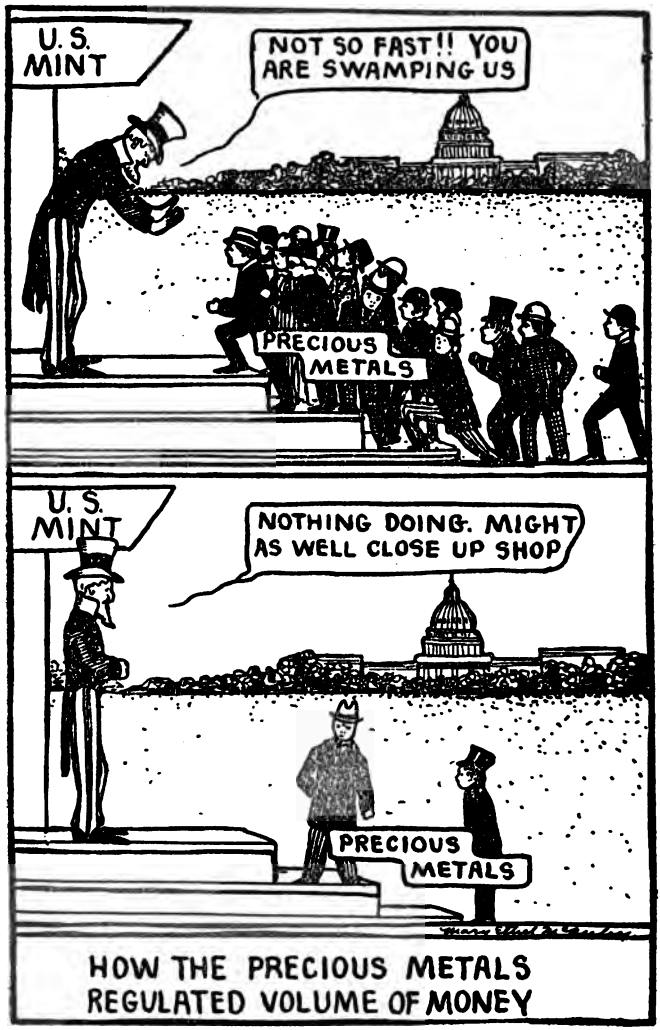
"That seems very logical," said Mr. Borden. "It certainly provides for a definite restriction or regulation of the volume."

"Even the most radical monometallist or bimetallist would at least have to admit its theoretical possibility, for their own arguments, insofar as they had any real merit, were also based upon a limitation of volume rather than in any qualities inherent in either of the metals."

"The monometallists claimed that the quantity of gold alone would provide the best restriction of money volume, while the bimetallists claimed that the quantity of both gold and silver would provide the better and more adequate restriction of money volume."

"But does not the system have the power of boosting average prices by unduly increasing the volume of loans? And also the power to depress average prices by unduly reducing the volume of loans? Is that not a very great power to give to any system, or to the body of officials in charge of such work?"

"Yes, it is a tremendous power and its proper exercise is of vast importance to our welfare," replied Uncle Sam. "But it is one of those powers which existed before and which would have been existing and operating if I had never entered the banking busi-



HOW THE PRECIOUS METALS REGULATED VOLUME OF MONEY

ness, so it cannot be said that we have created any new hazard along that line."

"Under the old banking system, this power was exercised in part by a variety of factors. We had the free coinage of gold, which threw our mints open to all the gold presented for monetary use. Old producing mines might become exhausted. New ones of fabulous richness might be uncovered by a miner's pick. Chance, the accidents of discovery, and not monetary needs or requirements, controlled such part of the volume."

"We had a mass of silver coinage which had been issued under various enactions that simply injected such volume, without any further provision for adjustment to meet monetary needs, either by increase or decrease."

"We had three or four hundred millions of money in the form of 'United States Notes' being the remnant of the old 'Greenback' currency issued during the Civil War period. This currency was originally issued to help out the dire fiscal needs of the government in prosecuting the war. They were issued to take place of inadequate revenues and not to provide an adequate exchange medium. The volume was much larger originally, but most of it had been burned up and replaced with interest bearing bonds.

"We had several hundred millions of National Bank Notes, supplemented and succeeded by the

notes of the Federal Reserve Banks. Their volume very largely depended, not on monetary needs or requirements, but on whether the various banks could make a profit by their issue. If they could make a profit by doing so, they would issue more notes, even though the monetary needs would have been better conserved by a lesser volume. If they could not issue profitably, they would reduce the volume, even though the real monetary needs would have been conserved by an increased volume. Personal profit and not the public weal was the controlling element in fixing such volume of currency."

"On top of these 'cash moneys' we had a mountain of bank credits built upon a margin of 'legal reserve.' This volume of bank credit money or 'discounts' was subject to the selfish actions of the thousands of banks, each acting in such manner as would give the greatest financial return to itself, without much material regard as to what would be the effect upon the popular welfare. In times of stress, especially, it was 'every one for himself' and the measures taken for self-preservation would often operate against the general welfare."

"Sometimes those in control of the banks, especially those in control of the larger ones, for the purpose of forcing legislation or of influencing the stock markets, would arbitrarily make great alterations in their volume of discounts. The little fellows

would, to a large degree, follow their lead and as a result we would have great alterations in the volume of total bank credits, alterations not framed to conserve the general welfare, but solely to help out the selfish personal schemes of the instigators. This

practice was illustrated very forcibly away back in 1893, when the big bankers desired a repeal of the purchasing clause of the Act of 1890, providing for the purchase and coinage of silver. Congress not being altogether willing to accede to their demands, they deliberately precipitated a panic as an 'object lesson' of their power and influence. They ruthlessly and without any real justification slaughtered

their loans and discounts by hundreds of millions of dollars."

"The 'object lesson' accomplished its immediate purpose. Congress was coerced into an acceptance of the bankers' demand. The panic was a terrific price for the nation to pay for an 'object lesson' but it stands as a solemn warning against the nation permitting its monetary facilities to be at the mercy of any private or corporate powers, no matter how honest they may be or how fulsome their pretensions to serve the public welfare."

"So you can easily see that we always had influences at work determining the total volume of money mechanism and many of those influences were oftentimes directly opposite to the interests of the people as a whole. They were secret and underground influences, difficult to detect and almost impossible to frustrate when they operated in a manner detrimental to the public welfare."

"Under our present system the volume of exchange medium is scientifically regulated by public authorities, in the full light of publicity, preserving a stable value for the general welfare of the whole people."

"Under the former system the welfare of the whole people was subordinate to blind chance and the selfish interests of individuals, cliques and combinations of financial manipulators who would often

derive great profits from their alterations in the exchangeable value of the money medium."

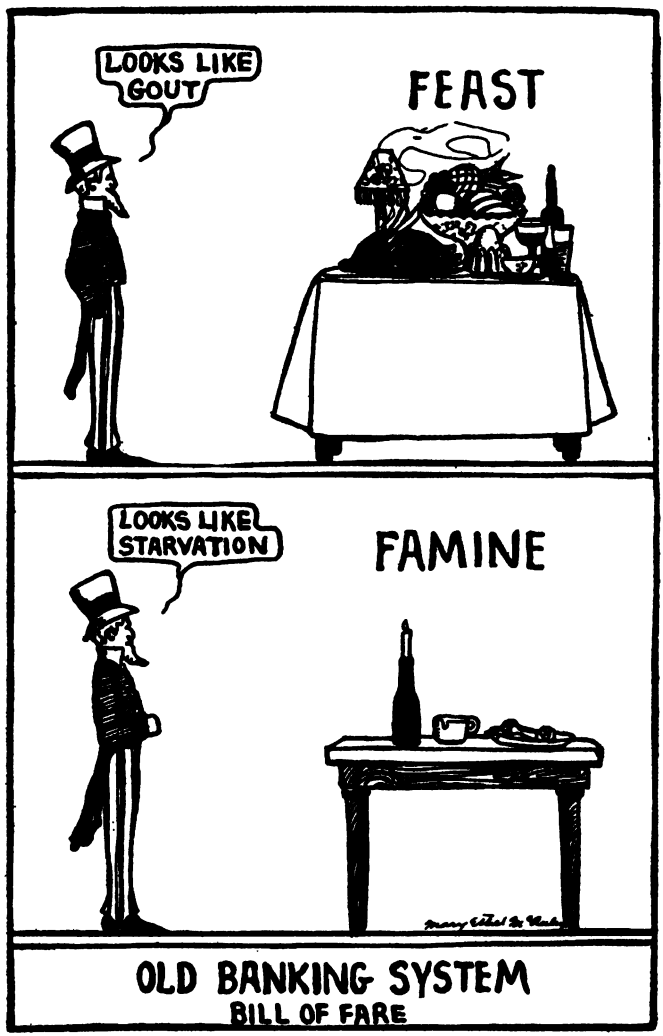
"In the old days, it was either 'a feast or a famine.' Our money value, as expressed in average commodities, was continually going up or down, its every material alteration either way causing widespread and irreparable injury, unsettling all business calculations and destroying the equities of all monetary obligations."

"In those days, business was as much of a gamble in money, a betting upon what the value of money would be, as a question of wealth production and distribution."

"Men would make their business calculations carefully and in good faith, but along would come those selfish personal and corporate influences which would unsettle the relative money volume and money value, upsetting all their affairs and oftentimes causing vast injury."

"We made a very, very wise move when we abandoned the old, slip-shod and unscientific method and began to regulate, publicly and above-board, the volume of money medium in the interests of the whole people."

"Our guiding principle was clear as the noon-day sun. It was the maintenance of average prices at a permanent stability or equilibrium, neither rising nor falling."


LOOKS LIKE GOUT
FEAST
LOOKS LIKE STARVATION
FAMINE
OLD BANKING SYSTEM
BILL OF FARE

"By retaining such average stability, business of all kinds had a bed-rock **foundation to build upon** and was freed from feverish 'booms' and the panics of depression. Business men would make their calculations, use their best judgment as to whether the commodity they were directly interested in would move above or below the level of average things, **but they never had to worry about what the average level would probably be.**"

"Then your money and banking system does not try to regulate or fix the value in money of **individual** commodities? For instance, it does not try to have wheat so much per bushel, cotton so much per pound, or steel so much per ton?"

"Oh, no, not at all. By regulation of the volume of exchange medium we fix its **average** value. Its value compared to **individual** items of wealth varies as such items vary in comparison with the supply and demand of things in general."

"Exceptional and abnormal conditions often put an individual item of wealth out of all proportion to the normal or accustomed relation and such item would be higher or lower in price than usual."

"This ability of **individual** prices to vary, while prices as a **whole** remain stable, **is one of the blessings secured to society by an exchange medium.** It enables both the benefits and losses of abnormal

conditions to be distributed and not confined to the comparatively few persons directly interested."

"Take our wheat crop for illustration and suppose that a dollar per bushel is a fair price under normal crop and market conditions."

"If we have a bad season and crop falls much below normal quantity, it has the effect of commanding a **higher price per bushel,** thus enabling the farmer to get somewhat near the **same money value** for his crop. He does not have to stand the **full** effect of the crop failure, but the public stands a **good share** of it in the increased price paid for wheat and flour."

"On the other hand, if the crop is extra large and market conditions continue normal, wheat will command a **less price per bushel** than usual. The farmer **may not get very much more money,** or purchasing power, for his **extra large** crop than he would for a **normal** crop. The **public** at large takes a portion of the **benefits** of such large crop in the form of **cheaper** wheat and flour."

"Thus, if we but keep the level of average stability, there is a splendid compensating action always at work harmonizing and adjusting the individual prices, as various articles of commerce respond to unusual and abnormal conditions which for the time may place them above or below the average level."

"Some people would be benefitted by a rise in individual prices. Others would be injured by the rise. Some people would be benefitted by a fall in individual prices. Others would be injured by the fall."

"Some people would be benefitted by a rise in average prices. Others would be injured by the rise. Some people would be benefitted by a fall in average prices. Others would be injured by the fall."

"**But the whole people cannot be benefitted by rising or falling prices.** Their interests are **absolutely centered in a stability of average prices,** so that business calculations and monetary obligations

as a whole can be entered into and completed with money of the same average purchasing power, even though years may be required for the maturity of such calculations and obligations."

"Give to any individual the power of regulating the money value to suit his personal selfish interests and we would have a striking contrast when compared with the public needs."

"The individual would want anything but a stable medium and, if given the power, would never have a stable medium. He would have it appreciating or depreciating, or alternating in great swings of the pendulum. Knowing in advance what was to happen and when it was to happen, he could buy property and stocks at a low valuation, send them up by booming the money volume, sell out at top of the market, withdraw the money volume, make prices tumble, buy in again at the low market and continue the process indefinitely, or until such time as he had absorbed all the wealth into his ownership."

"While this was going on, some individuals might be lucky enough to guess what the real power was going to do and apparently be a little ahead for the time being, but the other fellow would never lose and in the end would get them all."

"Such a vast force for good or evil as is involved in the maintenance of the exchange medium should

A FRIENDLY GAME IN THE OLD DAYS

not be reposed in any power short of the whole people acting directly through public channels."

"It is true there is always a possibility that those in charge might not always preserve the exact desired stability, but it was much better to chance such possibility than to continue the former system, for under it there was every probability of instability. In fact, under the former system, **instability was a certainty,** for those in chief control were selfishly interested in making the money medium **unstable** and were not appointed by or responsible to the public for their actions."

"Long and bitter experience taught us that stability could hardly be even hoped for under the form-

er method of determination and we felt sure that the new method possessed every probability of being much better than the old."

"Taking this power into our own hands was in line with the fundamental spirit of popular government."

"The people as a whole suffered the consequences of an unstable exchange medium. Knowing they would have to pay the penalty, they would be the least liable to make mistakes. Any mistakes they made could be easily located and rectified."

"Under the old system it was very difficult to locate the errors and fix the degree of responsibility among the various factors contributing to such error; and even more difficult, if not impossible, to have such factors make a proper restitution or adopt safeguards to prevent a repetition of the error. The same blunders, intentional or otherwise, would be made time after time, the people being practically helpless to prevent them."

"In the old days, it was pathetic to see how some of the supposed economists would dodge and sidestep this whole question of a public organization and regulation of the exchange medium."

"Where they did not absolutely refuse to discuss it, they usually tried to evade it with some statements of opinion about the people in their collective or representative capacity not having the

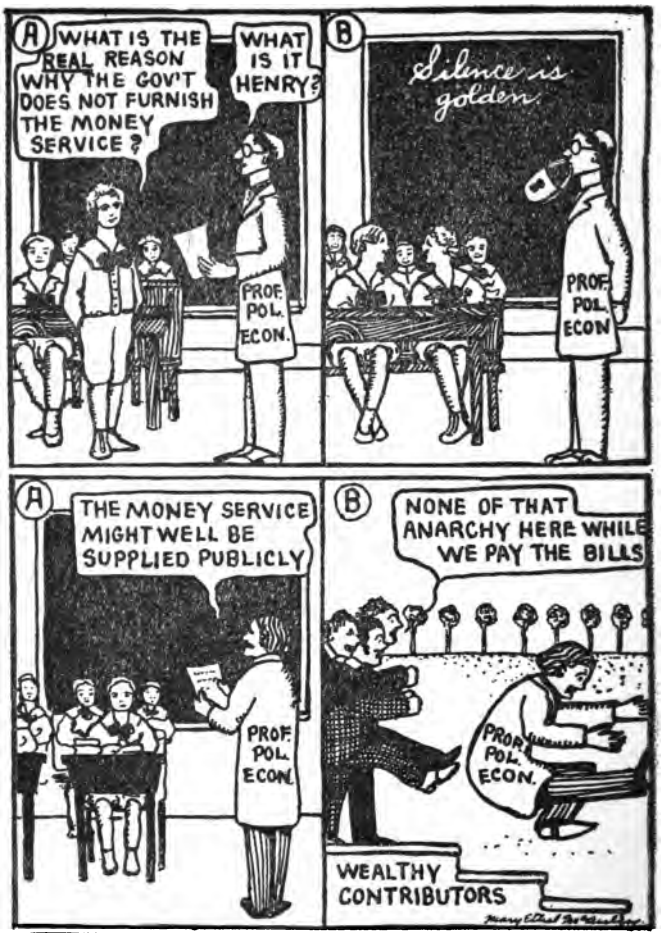
brains and ability to frame and operate a proper system or the honesty and integrity to do so."

"They were so anxious to please, or at least not rouse the hostility of those selfish interests who were largely in control of the exchange medium, that they would be constantly insulting their readers and their audiences by thus decrying their ability and integrity."

"It was rather unfortunate and somewhat discouraging to find men, sometimes under auspices of educational institutions, debasing their calling by thus hiding behind an assumed ignorance and dishonesty on the part of the people as a whole, at the same time directly inferring that the individuals, cliques or combinations then in control were paragons of both enlightenment and integrity."

"We would have adopted the present system many years sooner if those supposed economists had used the same time and energy in teaching and discussing the money medium from a public viewpoint. Their time was worse than wasted by evading the subject and thereby throwing dust into the eyes of the people, preventing them from clearly grasping the idea that the money medium is essentially a public affair."

"Splendid exceptions were found here and there among the economic writers and teachers, men who would not be silenced by fear of incurring the dis-



EDUCATIONAL FREEDOM IN THE OLDEN TIME
(NOT ALWAYS, BUT TOO OFTEN)

favor of 'the powers,' but they were often made the victims of relentless persecution and virtual martyrdom."

"But I am getting away from the thread of my story. The subject is so ramifying that I find it difficult to keep from straying off into some of the many interesting by-paths."

"By this simple plan of adjusting the proportion of loan to security pledged, we are enabled to maintain what you might well call an absolutely stable money."

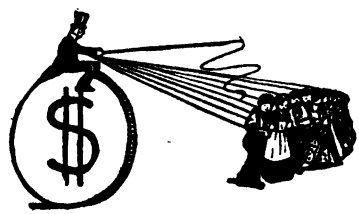
"Our administrative forces have this work so thoroughly systematized that, in a long series of years, you can not find as much fluctuation in the average purchasing power of money as you formerly would find within the space of a few weeks."

"The people in general have become firmly convinced of the justice and essential wisdom of preserving a stable money value and each administration tries to excel in maintaining such stability."

"By such regulation, we have produced a stability of money value unparallelled in the world's history. Our method of regulation has been copied by other leading nations, for they soon awakened to the fact that we had a basis of business calculation far superior to what we formerly had and that they must revise their systems, not only because it was better for their domestic affairs, but to prevent

them from being under a serious handicap in dealing with our business interests."

"We find no fault with them for adopting our method, either in whole or part. We are not selfish as a people and want other nations and peoples to take advantage of all the improvements we can install and thereby help them to better standards of civilization. We want other nations to progress with us, even surpass us, if they can do so in a fair contest of intelligence, industry and resources."



CHAPTER VIII.

Retirement of Old Forms of Currency—New National Currency Used Instead—Demonetization And Depreciation of Gold—Storage And Disposal of Gold And Silver Bullion—Not so Much Worshipped, But More Useful—Specific Contracts No Bar to Demonetization—Void in Justice, Logic And Law—Passed Upon By Supreme Court.

"What became of the various kinds of cash moneys you formerly had as part of the money volume?" inquired Mr. Borden.

"If I understand it correctly, after you had provided for the issuing of your National Currency and had adopted the new method of regulating the volume of loans, **there was no real need or necessity for continuing the many old forms of money.** They were superfluous. I suppose you must have retired them in some manner."

"In fact, when I come to think it over, I do not recollect having come across any Gold Coin, Gold Certificate, Silver Certificate, United States Notes, National Bank Notes or Federal Reserve Bank Notes since my return home."

"You seem to use some of the old silver dollars, the fractional silver coins and the minor coins just about as before, but the only kind of paper notes in use seems to be the new National Currency. You have such notes in various denominations and they are very fine examples of the engravers' art. But how did you dispose of the gold coinage and the varied kinds of paper money you formerly used?"

"Yes, we disposed of them long ago," replied Uncle Sam. "I had not intended to speak of them until a little farther on, as their passing from use was but an incident of minor importance in our process of reorganization. But I suppose we might as well take up this phase of the subject now as later on. Perhaps it will 'clear the air' a little to explain what we did with them before passing on to the more important part of our work."

"At the time when we provided for our new National Currency and ceased depending upon a 'legal reserve' margin in fixing our loan volume, we closed the mints to the free coinage of gold. We retired the gold certificates and melted down our gold coins into bullion. For the time being we stored the bullion away in the Treasury vaults."

"It was an easy matter to retire the certificates and remelt the coins, for at the time our banks and Treasury had in their possession practically the entire volume of both coin and certificates."

"It was provided that deposits in our banks could be made in any of the forms of money, but that cash withdrawals could only be made in the form of our National Currency Notes or in the fractional and minor coins."

"The few gold certificates outstanding were speedily brought in by a provision that after a stated period they would cease to have any legal standing as money."

"We used about the same method in dealing with the silver certificates and the bulk of the silver dollars. You will recollect we had on hand several times as many silver dollars as the people would use. The most of them were represented by certificates, the actual coins being piled up in our Treasury vaults."

"We kept some of the silver dollars in use for the accommodation of those who liked a metal dollar better than a paper one. We cancelled the silver certificates, melted the surplus volume of silver dollars into bullion, and, for the time being, we kept the silver bullion piled up in our Treasury vaults, along with the gold bullion."

"We certainly had what was considered a great 'treasure chest' at that time, but I will speak more about it later on."

"We continued the fractional silver and minor coins practically as before, keeping plenty on hand to provide for the small monetary usages that such coins are employed in."

"We also cancelled and destroyed the volume of United States Notes then existing. We had them practically all on hand in our own vaults, except such as were lost or destoyed. We helped along the retirement of the scattering outstanding notes by providing that after a certain time, they, too, would cease to have any legal standing as money. It took a very

short time to secure all that were in any way obtainable, as the people naturally turned in all they had before they became demonetized."

"The retirement of the gold certificates, silver certificates and United States Notes, as well as the gold and silver coins, did not involve the expenditure of any of the public revenue and, when completed, we had on hand a large commodity asset in the form of gold and silver bullion."

"We retired the National Bank Notes and Federal Reserve Bank Notes by requiring the banks to return them to us and we gave back the securities we held as a guarantee for the notes. It was a rather simple bookkeeping process between the banks and the government, somewhat similar to the plan formerly used by the banks when they wanted to reduce the volume of their circulating notes."

"We exchanged the securities for the notes and then cancelled the notes. We did not restrict the banks to returning the notes of their individual banks, but we permitted them to send in the notes issued by any bank. All we required was for them to send in a volume equivalent to what had been issued upon their security, putting them back in the same position as if we had never required or permitted them to take out any circulating notes."

"We had a two-fold purpose in permitting banks to send back circulating notes issued by any bank."

"In the first place it would have been very difficult and probably impossible for any bank to have gathered up the full amount of circulating notes that had been issued to it. In most cases, notes would have been lost or destroyed and there was also a danger that 'sharks' would get hold of some of their notes and force banks to pay a high premium for them."

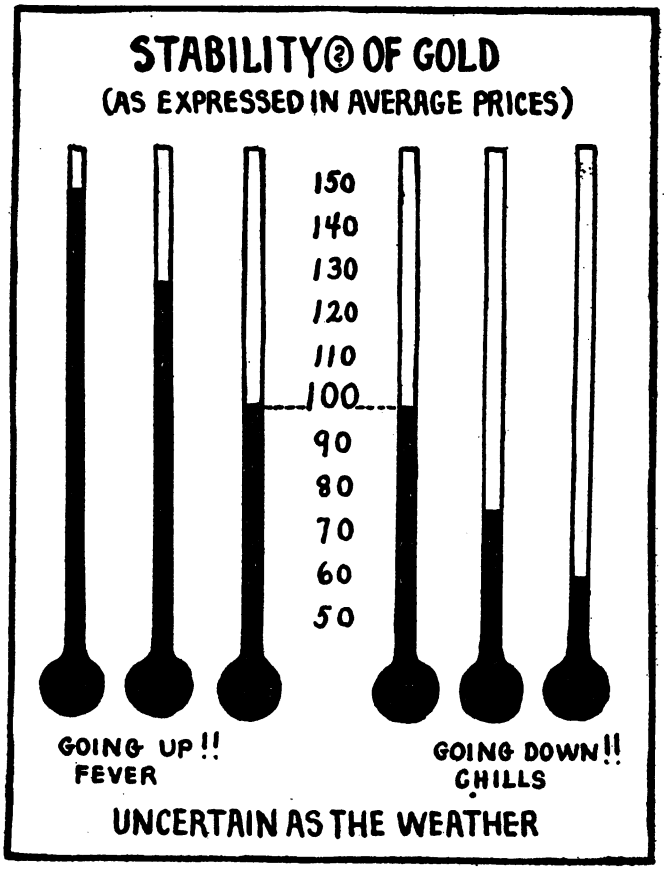
"In the second place, it appeared to us, inasmuch as many of the notes never could be recovered, that the people as a whole should become the beneficiary of such condition, and not the individual banks."

"When it came to balancing up such adjustment, the public treasury was richer by many millions, for it was impossible for the banks to find near the total volume of such notes to present for cancellation. We required the banks to pay the difference in the form of our own National Currency."

"The government for a while held such volume of National Currency as a trust fund to redeem belated notes, but eventually the whole matter was closed by fixing a stated time after which such notes would be demonetized. Much of the fund was never drawn upon and was turned into the general treasury as a revenue."

"As the gold coins, excess of silver coins, gold and silver certificates, United States Notes, National Bank Notes and Federal Reserve Bank Notes were

being retired, the National Currency, provided through our own banks, **automatically came into use as a 'cash money'** to take the place of such portion of the former moneys as had been acting as



hand to hand circulation among the people. They would withdraw or keep in cash form such portion of the volume of loans and deposits as was needed for a convenient cash circulation."

"What happened when you stopped the free coinage of gold, melted up the gold coins and discarded it as money?" inquired Mr. Borden. "Did it not result in your bank notes depreciating somewhat as compared with gold bullion of the same weight and fineness as the gold coins had contained?"

"From your explanations, as well as by reading the printed matter on one of your bank notes, I fully understand there is not a particle of provision for any guarantee or redemption in gold or any other specific article. I am rather curious to see how you prevented your notes from depreciating somewhat, for it was generally taught by our financiers, in the old days at least, that notes could not retain their gold value unless they were specifically redeemable in gold."

"Well," resumed Uncle Sam," somewhat to the surprise of the more credulous, who had been gulping down as vital truth almost any absurdity put forward by the financial interests, the 'crack of doom' was not sounded by our discardment of gold."

"It was entirely possible and the best economic writers and teachers, even in former years, admitted its possibility, for notes to retain a value equal to or

above gold value without any provision for redemption in gold. They did not often follow such teaching to its logical conclusion, for that would have been financial 'heresy' in those days and would probably have resulted in commensurate punishment by the financial powers. But they did put themselves on record as saying that the value of notes **could be kept up by proper limitation of volume,** without any specific provision for metallic redemption."

"But we were not much concerned in keeping our notes equal in value to a specific quantity of gold. In fact, that was one of the very things we were trying to avoid when we established our new method of regulating the volume of money."

"We were adopting a means of securing a money of stable value and **a fixed quantity of gold never had anything like a stable value.** If we had attempted to drag the exchange value of our money medium up and down as the exchange value of gold rose and fell, we would have defeated our own purpose."

"As a matter of history, in the period preceding our abolition of gold, average prices had been steadily rising, as expressed in gold. Gold was **depreciating** in exchange value and was **not** a stable money medium."

"When we stopped the coinage and use of gold, the effect was to cheapen the exchange value of gold still further as compared with average

things. Our action lessened the demand upon the volume of gold produced and it depreciated a little more, if my recollection is correct. As I said, we were not much interested at that time, or since, in what became of gold, for all our money affairs were carried on in the new money medium, which remained stable and did not follow gold on its downward pathway."

"Then, instead of your new money going to a discount, it was really gold that fell?"

"Yes, that is correct," replied Uncle Sam. "Compared with the general average of things, our money remained at par, while the value of gold depreciated."

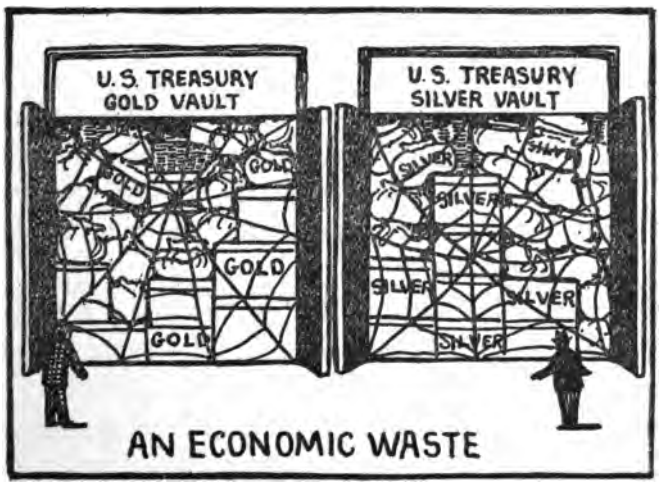
"As expressed in gold, and due to our lessened demand upon the production of gold, average prices continued to rise in all nations that maintained their money medium at an equivalence with gold."

"Our affairs went ahead upon our own stable basis, while other nations found their troubles were increasing, as the volume of gold which had annually been used in our coinage presented itself at their mints and helped to dilute and depreciate the value of their money medium still further."

"Their troubles along that line continued to accumulate until they also took measures to check the coinage and use of gold and stop such harmful depreciation of their exchange medium."

"Had we felt so inclined at the time, we could have caused great confusion, if not actual disaster, in every nation that had what they called a metallic basis for money."

"You will remember that we melted up our gold and silver coinage and kept it, for the time being, stored up as bullion in our vaults. We had hundreds of millions of dollars' worth thus piled up."



"Although it was an asset to us, it was rather difficult to realize upon. In fairness to the other nations and in justice to our own affairs to the extent that they were dependent upon the conditions in other nations, we could not wisely dump the whole mass on the market as a commodity, for it would

have found its way at once into the money volume of other nations and perhaps have worked much injury before they could take adequate measure to prevent such influx, or neutralize its effect by a radical reduction in their other forms of money medium."

"Our own affairs would not have been directly affected, but, if it had had the effect of upsetting the affairs of other nations, it would have made a harmful indirect effect upon us more than sufficient to offset the amount we had received from the sale of the bullion."

"So we thought it best to keep the bullion on hand until such time as other nations got their systems adjusted so that the bullion could be marketed as a commodity without disaster or injury to their money systems."

"As other nations took the necessary precautions we disposed of the bullion and it was marketed as a commodity. Some of our people thought we were just a little over-anxious to protect the other nations, but taking all the circumstances into consideration, I think we were amply justified in not throwing such great volume of gold and silver on the market, when it was not prepared to take care of it."

"Such condition was only a proof that other nations, for their own salvation, ought to frame their

exchange systems so that actions of ours would not materially affect them."

"During such period of storage, those piles of bullion were about the most useless objects of wealth that the mind could imagine. There they were, stored away in our vaults, tier upon tier, representing endless labor, misery and hardship in their production, but not doing a single blessed thing to justify the sacrifices they had entailed."

"In this respect, however, while we had centralized the storage places, the gold and silver were hardly less useless than they had been in former years, for in a civilized state it is a clear economic waste and extravagance to use such scarce and useful materials as gold and silver in the exchange medium."

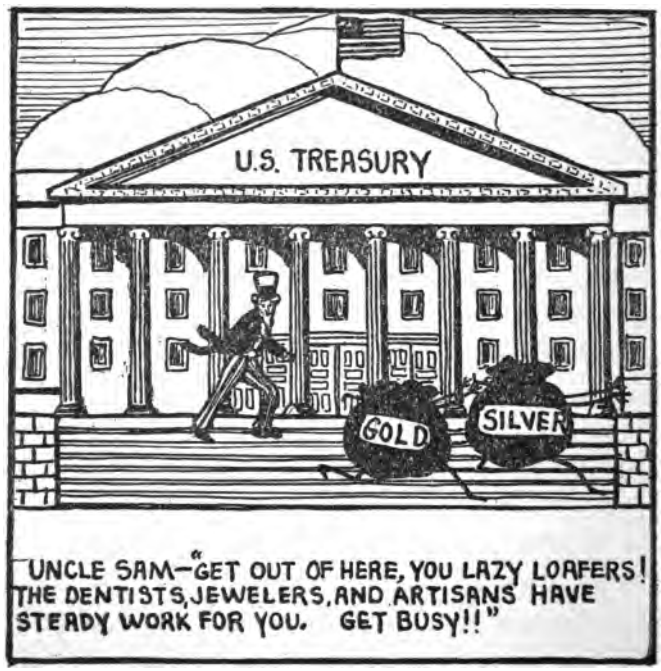
"Once in a while, we would unlock the great doors of the vaults, sweep out the accumulation of dust and cobwebs, and solemnly go through the process of weighing and checking up the junk, to be sure that the rats had not eaten any of it."

"Our guides and watchmen got a deal of amusement in taking visitors down to the bullion vaults, for some of them were so awe-struck and impressed they could hardly speak in their vicinity."

"Figuratively speaking, I often felt like kicking them right off the premises and telling them to go to work, but we had raised them as loafers to be hid-

den away and have their work done by representatives or substitutes, and we had to pay the penalty of a little further delay caused by the 'weaning off' process."

"As they became deprived of the artificial value which we had helped to place upon them by our monetary uses, they resumed their natural place in the list of commodities. **They were not toadied to or worshipped as they had been before, but they were a great deal more useful."**



"Being less in relative value than they had been, they were more easily obtained and at a less sacrifice of other things and it became possible for people to use them more widely in the various arts for which they are well adapted."

"That is a very interesting and logical explanation so far as it goes," interrupted Mr. Borden, "but it is still not clear to me how you could do away with the metal currency, especially the gold coins, at that time."

"What did you do about the great quantities of bonds and other monetary obligations then outstanding which were expressly **'payable in gold coin of present weight and fineness?' How could you do away with gold coins until after the maturity of all such obligations? You surely did not permit or sanction a repudiation of those obligations?"**

"No, we never permitted a dollar of those obligations to be repudiated as **monetary** obligations, but we did not recognize or accept them as **gold** obligations. We rightly held that, insofar as they attempted to specify gold, they were absolutely null and void."

"We held that the people could make contracts payable in **gold** if they so desired, or they could make contracts payable in **money**, but they **could not make** contracts payable in **gold money.** We held that all contracts so worded should be construed as

money contracts and payable in such money as the people, in their sovereign capacity, would provide. We held that money obligations, from their very nature and purpose, were payable in the legal money current at date of payment."

"The whole idea of 'gold coin contracts' was an absurdity, an attempt to negative the supreme power of the people over the money medium, an attempt to dictate the course of legislation and chain our exchange medium to one of the relics of bygone barter days."

"Many of those contracts would not mature for generations and to have accepted them as binding would simply have meant that the people had, in large measure, lost or abandoned their power over the money medium. If the contracts had been upheld as valid, we would have been under obligations to continue the gold coinage indefinitely, so as to provide a means for the payment of the obligations at their maturity."

"A test case was taken to our Supreme Court, which took a common-sense view of the situation and decided that Congress, as the supreme law-making power of the nation, had complete jurisdiction over our money; that, in the exercise of its sovereign powers, it might deem it advisable to make changes in its issue or regulations; that every monetary obligation was necessarily entered into subject and

subordinate to any changes that might be made; that the equities of monetary obligations required all money obligations to be predicated upon such possible changes; that any supposed specific contract was in contravention of the sovereign power of Congress; that the legal money current at time of payment was the money of the contract; that no person could, by any specific clause, contract himself outside of the right to pay or the right to receive payment in the legal money current at date of payment; and that no person could make a contract that would prevent or limit Congress in the exercise of its Constitutional duties, as it should from time to time determine."

"That decision was in line with the underlying principles and functions of a money medium and it clearly established, as a matter of law as well as sound economics, that all money contracts were payable in our National Currency which was made a full legal tender."

"Due to the fact that gold, for some years prior to that time, had been depreciating, there was not much opposition to that decision."

"Many of those 'specific' obligations had been entered into many years previously, when gold was appreciating. The creditor interests, who, at that time thought they were playing very safe and shrewd in having obligations so drawn, had become

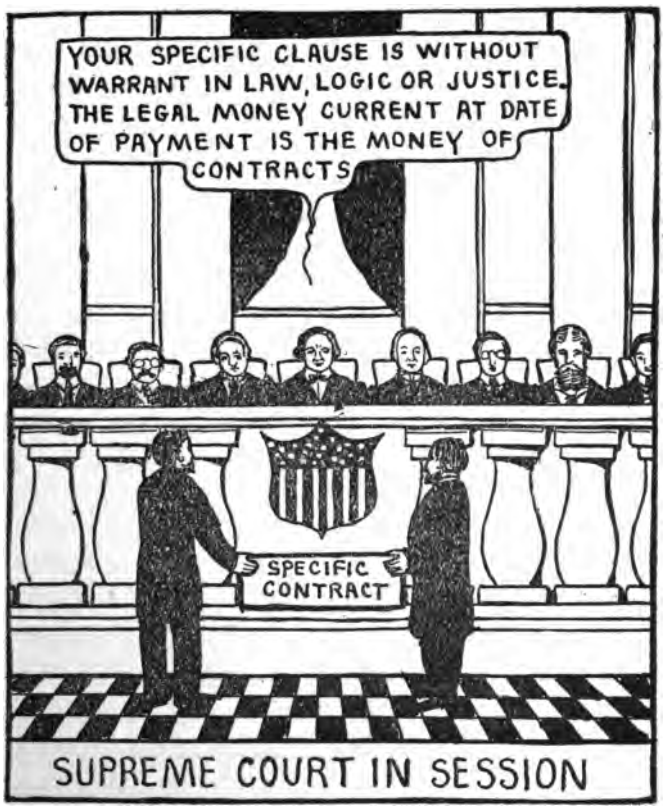
somewhat alarmed as the changing of gold to a depreciating scale began to jeopardize their holdings. They were almost as anxious to get away from accepting in gold when it was going down as they had been to have the contracts written in terms of gold when gold was going up."

"The case I mentioned was taken to the Supreme Court by a creditor, who objected to payment in the new money and who held to a fulfillment of what he called the 'strict letter of the contract,' but there was another case taken into the court for decision, which clearly showed that the specific clause, if held binding, would be a two-edged sword in its effect."

"A certain man was on the debtor end of a considerable amount of those 'gold coin contracts' and he not only held that he had the right to pay 'in gold coin of present weight and fineness' but that he had a right to insist that such gold coins be issued under free coinage conditions, such as existed when he entered into the obligations."

"He held that he had run a risk of the gold appreciating and had a perfect right to take advantage of the depreciation of gold and pay his obligations in gold coins, even though such gold coins did not have one-tenth the real value or purchasing power that gold coins had at the time of entering upon the obligations."

"The Court set aside his case also and ruled that it was identical in principle with the other,—that he could not prevent Congress from taking such actions as it deemed best in the exercise of its powers from time to time."



"We did not have very much trouble or wrangling along those lines, for the debtor interests could not give any reasonable excuse for wanting to pay in a depreciating money and the creditor interests in general were very glad to escape tender of payment in a depreciating money. Had the adjustment taken place in one of the former periods when gold was appreciating, I suppose the creditor interests would have bitterly opposed payment in anything but the appreciating money and would have probably exhausted every effort to convince the debtors that it would be highly dishonorable to pay in anything but the appreciating money."

"On the whole, gold and silver passed from use as money without any regrets or misgivings, but rather with thankfulness that they were succeeded by a money medium of permanent stability and honesty, robbing neither the debtor nor the creditor, but preserving intact the equities of monetary obligations."

CHAPTER IX.

Definite Security Back of All Money—Unsecured Currency a Dangerous Proposition—Much of Old Currency Was of That Nature—Old Fallacy of Trying to Divide Money Into Standard Money And Currency—Of Help to Private Interests Seeking Control—Check Books Preferred to Bills or Coins. Necessary to Have Available Debit and Credit Instruments Balance—Money Reform Question Often Dwarfed By Its Friends.

"At the time when you retired the old forms of notes and coins and made the circulating notes all come into existence through loans created and maintained by your public banks, why did you not take advantage of the situation and, on your own faith and credit, replace the old moneys with a like volume of notes, issued direct, without having to go through your public banks and without necessity for any definite hypothecation of wealth to secure the amount?"

"Why did you not consider at least such portion of the money medium as a sort of National credit or asset and 'float' it, without requiring the creation of a like volume of debt obligations, such as would be required by the methods used in creating money by means of loans through your banking system?"

"Why did you not consider such volume as being **all profit** and utilize it in payment of public expenditures, thus relieving the people of that much taxation? Of course, I can see how you could not keep up such process of **'lifting yourself over the fence by the bootstraps'** indefinitely, but it would appear as if you could have done so for the initial issue and to the extent of the then existing volume of the old forms of money. I am rather curious to know **why you did not accept the opportunity to make such profit for the public in general."**

"That was a very puzzling situation to many of our people at that time," replied Uncle Sam, "and some of them were rather inclined to criticise our actions when we 'passed up' what looked like a very good opportunity to **'get something for nothing,'** but our reasons for so doing were well and solidly founded."

"Fundamentally speaking, money is a function and not a material thing. Its existence presupposes both a debit and a credit obligation, a liability and an asset, in balance with each other."

"The question you ask would imply that it was not only possible but advisable to create a portion of the money medium and have it stand as a sort of surplus asset, without a corresponding volume of liability obligation."

"In dire extremity, there may seem to be much justification for a nation to 'float' or force an unsecured currency, but, as a scientific proposition, dealing with the creation or maintaining of a money medium when no such dire extremity exists, it has no more standing than an individual who would attempt to float his obligations in excess of his resources for repayment."

"It is true that such 'kiting' could be carried on by the government to some extent under almost any condition of affairs, and under extraordinary circumstances, such as those involving the very existence of the nation and **when every other revenue resource had been exhausted,** might well be resorted to to a very large extent. The life of the nation might be saved by such additional 'revenue' at a supremely critical point, but it would be a hazardous proceeding, even under the most favorable circumstances."

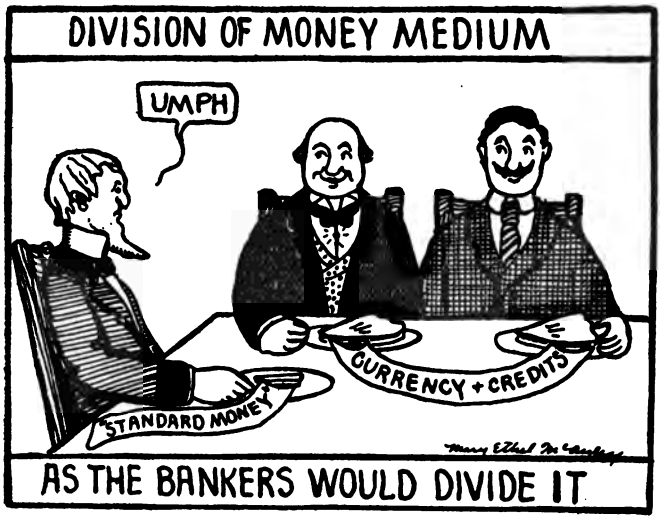
"If we view the money volume as one that might afford a refuge to a nation in case of extreme emergency, then it stands to reason that we ought to keep such volume, under normal conditions, entirely free of such forced or unsecured currency. Otherwise the extreme emergency might arise and the nation be without power to handle it, owing to the money volume being already filled by unsecured currency."

"In essence it is just as faulty for the government, for its own fiscal affairs, to issue unsecured paper as it is for individuals to issue or float securities upon property which they do not own or which may not be in existence. The government, in a sense, would be about in the same situation as the skillful person who was really insolvent but who might be able for a long time to conceal his insolvent condition from the public at large."

"In past years, even when there was no semblance of national peril, our exchange medium was always more or less infected with the fallacy that it was not necessary to have debit obligations to offset the credit instruments which money became when it was put into circulation. **Our entire volume of gold and silver coinage reflected that error and so also did the United States Notes."**

"As people realized that such money stood as credit instruments, without counterbalancing debit obligations attaching to their issue, as they realized that such money was but a part of the money medium in use, they were led into thinking that there were necessarily two kinds of money medium, essentially differing in nature and function."

"This false belief had always been encouraged by those who wanted to get control of the money medium, who wanted to make a profit by furnishing the supply or by manipulating the volume."



"Finding that the people **would not willfully and knowingly part with the sovereign power of issuing money,** they endeavored to inculcate the belief that there were two vitally differing kinds of money medium needed, the so-called standard, or primary money, which the **government** should issue, and the currency and credits, which **they** would supply."

"It is needless to remind you that the volume of currency or credits was **many times** the volume of the supposed standard, or primary money, and **the difference was the measure of success with which private interests had been able to usurp a public function."**

"The retirement of the gold coinage, surplus silver dollars and the varied kinds of paper money formerly used and the confining of circulating 'cash money' to the notes of our own National Currency, in addition to doing away with a lot of transient and external confusions, brought about an almost perfect adjustment of the issuing and circulating of notes with the fundamental theory of their true nature and function."

"**Both in theory and in practice, our National Currency became identical and interchangeable with our bank credit money.** It made no difference in results whether the holder of any given portion of the medium would withdraw and use it in the form of cash notes or leave it in the bank as deposits and check it around to others."

"The relative and changing **proportions** in which the cash notes and bank credits were **employed,** did not alter or affect the exchangeable **value** of the medium, as the total volume in use was not disturbed by such alterations."

"Exclusive of the silver dollars, fractional silver and minor coins, which we regulated from time, as needed, by purchase and coinage of the required materials and upon which the government retained all the profit or seigniorage, the only way in which circulating cash could come into existence was through the loaning department of our banks."

"Our entire volume of loans, whether in the form of notes or deposits, thus became a pure 'asset currency' and the borrower, or any subsequent holders of loans, had the option of using such currency as a bank deposit or in the form of circulating notes."

"The deposits in the bank would be less than the loans, to the extent that people would prefer to use the notes instead of their check books. This is a matter of little moment to our operations and depends upon a variety of changing circumstances, conditions and personal preferences."

"In our experience, but comparatively few of the notes have been used, or are likely to be used, as the people much prefer to pay by check, except for the smaller transactions, which do not require any large volume of notes. You could truthfully say that our volume of deposits has been the approximate equivalent of the volume of loans."

"The deposit volume cannot rise above the loan volume, which places a maximum limit to the deposits."

"Every dollar of money medium in use, whether in the form of coins, notes, bank deposits or bond obligations, is a credit instrument purporting to protect and guarantee the holder in his right to a return of actual wealth."

"Standing thus as a representative of wealth

and acting as a medium for the interchanging of wealth, it is obvious that the wealth they represent should be in existence and back of the instrument itself."

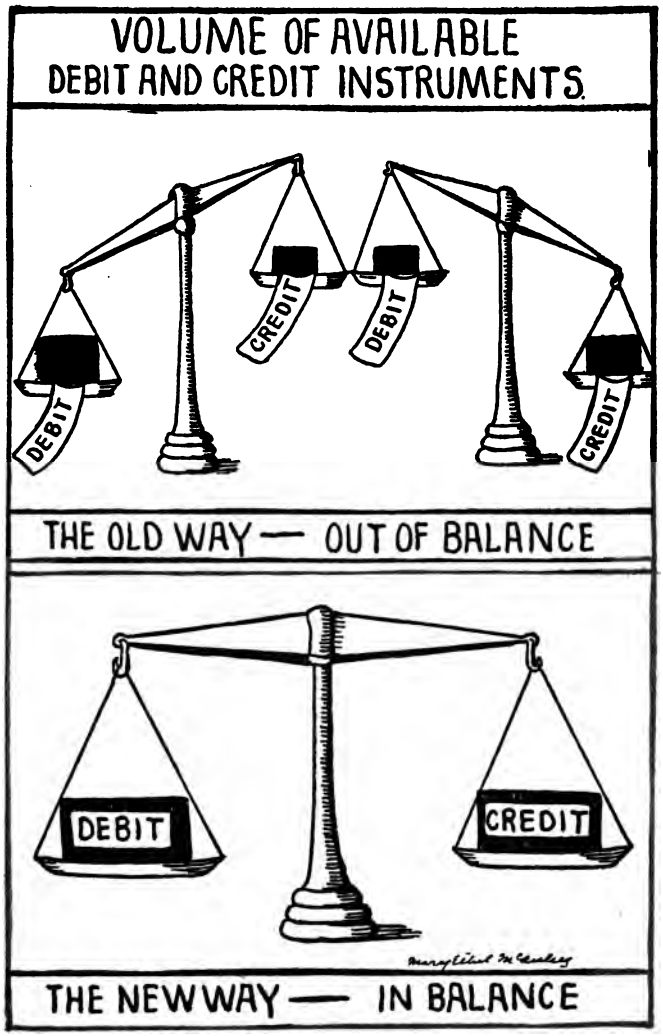
"In a proper sense, all exchange mediums are both debit and credit instruments, appearing as a debit to one side of every business transaction and as a credit to the other side. All exchange is really but an interchange of the debits and credits, a continuous round of offsetting and balancing."

"From a purely theoretical point of view, every particle of our exchange process could be carried on by bookkeeping, transferring the debits and credits back and forth from one person to another in endless procession, **without requiring the use of a single coin, bill or other tangible form of money."**

"As the process is one of exchanging debits and credits, it naturally follows that the volume of debit and credit instruments employed should balance, or the process will not be carried on smoothly and harmoniously."

"If the people, as a whole, at any given time, hold more credit than debit instruments, or more debit than credit instruments, the regular flow and interchange of such instruments is interfered with to the extent of the difference in their volume."

"All this may, at first, appear to you as being rather immaterial and hair-splitting, but I assure


VOLUME OF AVAILABLE
DEBIT AND CREDIT INSTRUMENTS
DEBIT
CREDIT
DEBIT
CREDIT
THE OLD WAY — OUT OF BALANCE
DEBIT
CREDIT
THE NEW WAY — IN BALANCE

you that it is a matter of real practical importance, for in past years a very large portion of our money and financial troubles have arisen from the fact that the necessity for keeping debits and credits 'in balance' has been very largely overlooked and ignored."

"At one extreme, we had those who thought it unnecessary to have any hypothecation of property or wealth of any kind to bring an exchange medium into existence. They thought it only necessary for a power like the government to print notes and scatter them abroad 'on faith' and they would properly perform all the money functions. A good portion of our money medium was wholly or in part of such 'faith' composition. From the standpoint of the general public, such notes were really a debit without any balancing credit."

"At the other extreme, we had individuals and corporations putting out great quantities of their debit instruments, also on 'faith,' and which they thought, or at least pretended, would properly perform the money functions. From the standpoint of the general public, such instruments were a credit without any balancing debit."

"There were no definite connecting links between the volumes of debit and credit mechanism created and, as a consequence, they varied widely."

"It is important to keep constantly in mind that the quantity of debit and credit instruments should

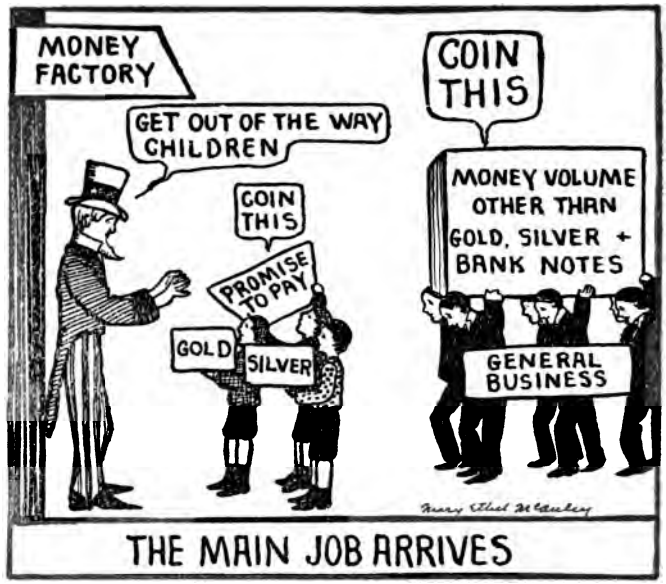
be in balance and that the creation of every volume of debit or credit instruments should, at the same time, create a like volume of credit or debit instruments which will be the natural and legitimate redemption at date of maturity."

"In our banking system today we have this perfect balance of debit and credit volume. Every debit or credit has its balance of credit or debit as they are issued, exchanged or cancelled."

"Many of those who believed **'that the government should issue the money'** failed to grasp the **full** import of such position and limited their viewpoint and discussion to **so small** a compass that the general public was not much interested."

"They compromised the strength of their position by accepting or tolerating a division of the exchange medium into what appeared as two fundamentally different classifications, by confining their demand to the smallest portion, and by apparently admitting, tacitly if not directly, that the larger part of the money medium was of a nature not proper for the government to issue or regulate."

"The people could not be much enthused over the idea of the government issuing the money **so long as it appeared to carry with it an admission that there was no hope or prospect of the government issuing the ten or twenty times larger volume of other**



exchange medium which the people had to use in their exchanges."

"Had all who believed 'the government should issue the money' clearly grasped the vast **extent and import of such demand** when logically carried out, they would far more quickly have caught and spread the grand truth that **all money medium, as a matter of principle, should be issued and regulated by the government, and, as a matter of practice, that it was entirely feasible and advisable for the government to issue and regulate the vast bulk of its volume."**

CHAPTER X.

Vast Volume of Money Medium—Much Larger Than Some Suppose—Includes Much More Than Bills And Coins—Bonds And Mortgages as Part of Money Medium—Power to Issue Bonds is But Power to Issue Money—Necessity to Extend Public Money System—Extension Logical And Simplifying—In Harmony With the Powers Granted to Congress By the Constitution.

"Speaking about the volume of money medium reminds me that the leaflet gives your Public Banks an approximate business of sixty billions of dollars," said Mr. Borden.

"In your recital of the growth of your banking system, you carried it to the point where all other banking institutions had been limited to the lending of their own capital stock."

"But after thus taking possession of the banking field, your aggregate volume of business was only about fifteen billions of dollars. **How did it become increased to the vast sum of sixty billions?** Surely the people do not require four times as much money medium now as then? I suppose the population now, being larger, would require a little larger volume of money medium, but surely not to the extent of four times the former volume?"

"No, we have not quadrupled our volume of money medium, although four times fifteen are sixty," replied Uncle Sam.

"The explanation of this apparent contradiction of terms is found in the fact that **the former total volume of money medium was not fifteen billions,** nor even fifteen billions plus that volume still left to be provided by the other banking institutions, **but a very much larger sum, not less than twice the amount then represented in the bank totals.**"

"At first sight it may seem to be a little puzzling to you, or even an impossibility, but there was more of the volume of money medium being furnished by other means than by our banks and the other banks combined."

"At that period of our development, we had hardly gone one-half of the distance to our destination, which was **to take charge of the entire volume of exchange medium needed, or as complete charge as varied conditions would permit.**"

"What's that!" exclaimed Mr. Borden. "Do I get your meaning aright? Do you mean that after you had developed your system to the fifteen billion dollar stature, it was still hardly half big enough to provide the money medium that was then in use? This is surprising to me. I had no idea there was any such volume as that in use. I at least thought the volume of all the banks would certainly be the equiv-

alent of the entire volume in use. But in what form was the additional volume and how did it come into existence and how was its volume regulated?"

"As a first step in such explanation, suppose you turn your mind back to considering the situation as it was before our Public Banks were established," said Uncle Sam. "Do you remember what borrowers had to put up as security before their loans were granted through the other banks?"

"Oh, yes, I do, in a general way," replied Mr. Borden. "I don't recall the various proportions of each, but part of the loans were granted upon notes with one, two or more endorsements, some on stock collaterals of various kinds, some on bonds and mortgages, etc."

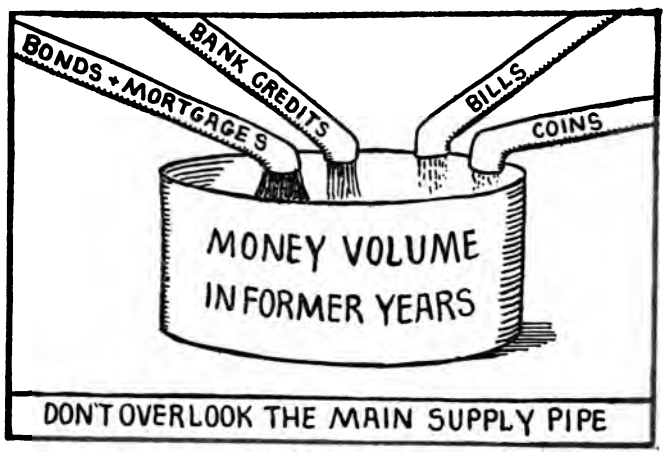
"Exactly so, and I want to call your special attention to the last items you mention, 'bonds and mortgages,' which are really one and the same thing."

"I suppose you have often realized that while the bond and mortgage items included as security for banks loans at that time might total several billions, perhaps half or more of the total bank loans, they were still but the smaller part of the total bond and mortgage indebtedness outstanding?"

"Yes, that was perfectly apparent," replied Mr. Borden. "The total amount of bonds and mortgages outstanding must have been at least four or five

times as much as what the banks held as security for their loans. The other and larger portion was held as investment by individuals and by various kinds of organizations and associations."

"And did it ever occur to you that bonds held by individuals and associations were acting in a monetary capacity just as certainly as those that were standing as security for the loans of the bank?"



"I never thought of them in just that light, but the idea seems to be rather interesting and fraught with great possibilities," replied Mr. Borden. "If such a view can be established as a fact it will greatly increase my understanding of the wide scope and extent of the money medium."

"In every material sense those bonds and mortgages were a part of the money medium just as certainly as any other portion of it," resumed Uncle Sam, "and to explain it clearly, let us make a little illustration of what we might call a good bond issue under the old system."

"A manufacturing concern had properties valued at one million dollars and desired to make extensions that would cost a half-million more. It had bonds printed or engraved to the amount of the half-million. The security for such bonds was their existing property and also the new additions as they were made. Proper arrangements were made to guarantee that the proceeds of the bonds would actually be used in the proposed new additions and not wasted or stolen."

"All of the preliminary arrangements being attended to, the bond issue was placed upon the market for disposal. Let us assume that the market condition was such as resulted in the bond issue being taken up one-third by banks who had surplus funds, one-third by individual purchasers and one-third by organizations and associations."

"The banks in payment for their portion would have given the manufacturing concern a credit upon their books of corresponding amount. The amount would then be checked out to various persons as the work of construction was carried forward. In the

vast majority of instances, it became redeposited in the banks and transferred indefinitely, until the maturity of the bonds, when the manufacturing concern would redeem the bonds by tendering their own checks.'

"The purchase of the bonds by the banks, or the loans they made upon the bond security, did not affect the total of their deposits. **They had the same total at the beginning, the middle and the end of the process.** What was affected was the **total volume of loans** and a **transfer** of deposits to other persons. The volume of exchange medium **in use** was increased by the exact amount of the **loans** made upon the bonds."

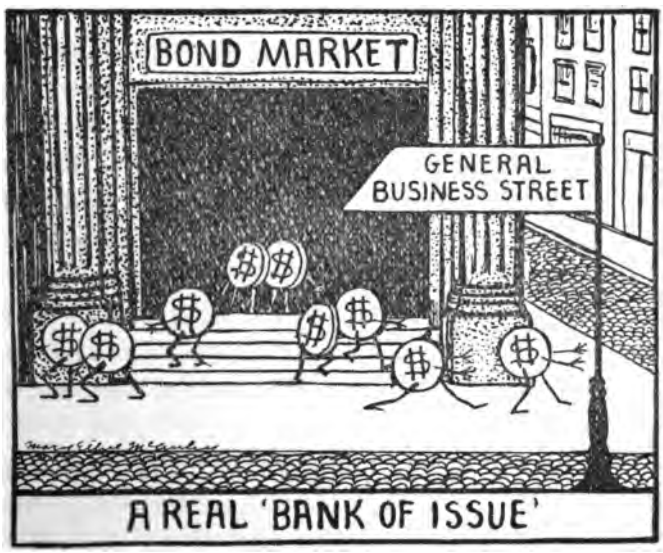
"Now let us see what was happening while the balance of the bonds were being taken up by private individuals and associations of various kinds."

"With the exception of a trifling amount that might have been paid for with cash moneys that had been kept in secret hoarding places, the bonds were bought and paid for in bank deposits. That is, the private individuals and associations, who had surplus 'deposits in bank' would, as payment, check over those deposits to the manufacturing concern."

"The manufacturing concern would check out the amount to various persons to be redeposited indefinitely, or until the maturity of the bonds, when they would become cancelled by checks upon the

banks. **The deposits in the banks were the same at the beginning, the middle and the end of the process. So far as the banks were concerned, there had been no change, except in the ownership of the deposits."**

"But there had been an increase in the interest-bearing instruments outstanding. The individuals and associations had used the banks as a means of putting credit in motion, and **it had the exact effect as if those individuals and associations had each the power of putting out a line of 'loans and discounts' just the same as the banks."**



"Practically, those individuals and associations, by purchasing the bonds instead of retaining the deposits, had 'coined money.' By transferring their deposits to the credit of the other parties, who started them upon their rounds, they had issued an additional volume of circulating medium, without requiring the banks to increase or decrease their loans a dollar, for they held the same deposits either way."

"In its effect upon the volume of actual circulating medium it was much as if the banks had been permitted to take up the entire issue by giving the manufacturing concern a credit upon their books equal to the entire issue, with a surplus deposit base of only one-third the amount."

"From the standpoint of the manufacturing concern, it was much the same as if it had taken the bonds to the government authorities and received circulating notes for them. The 'proceeds,' in the shape of checking accounts, were 'money' to it just as surely as any circulating notes would have been. In fact, it would probably have preferred the checking accounts to any form of circulating notes. Such proceeds were used for monetary purposes and for no other purpose. In short, they were money, in one of its modern forms."

"At first, you may find some difficulty in clearly grasping the idea that bonds and mortgages are but a form of money and nothing else. Your vision will

be clouded by the remnants of the old barter idea that money is limited to metals, or at least metals plus circulating bills."

"As you reflect over the subject, however, you will realize that **business men and business usages do not make any vital distinction between the various forms of exchange medium.** They put coins, bills, bank loans and bond proceeds all in the same category, use them interchangeably and for the same purposes. If various things can and do perform the same kind of work, if people become so accustomed to their interchangeable use that they cease to even think of any distinctions as they use them day by day, those things must be essentially **alike** in function instead of **different.**"

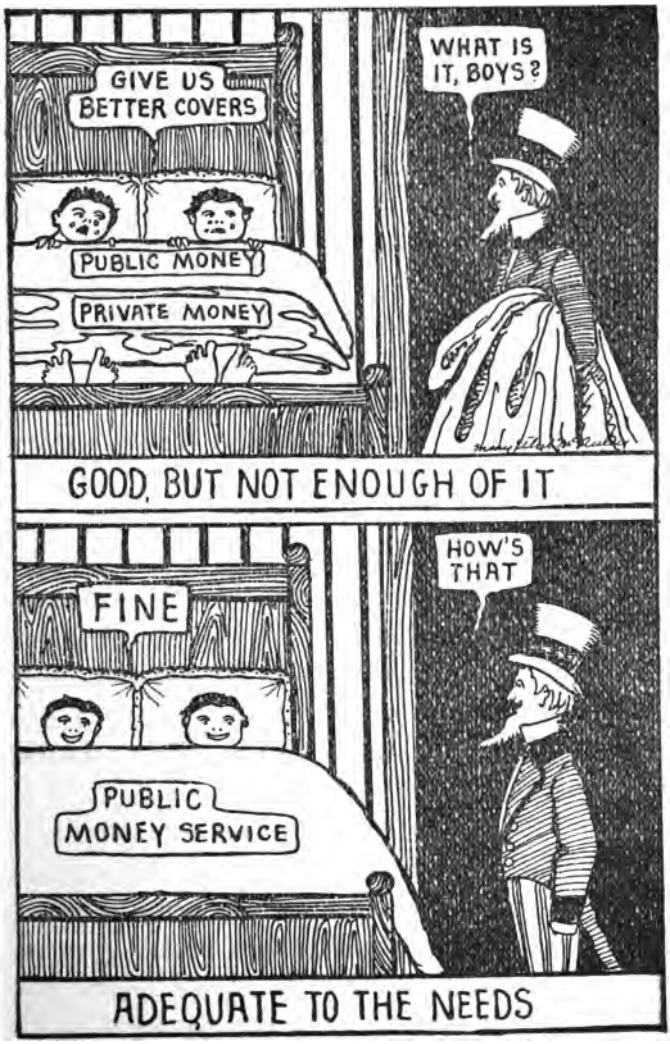
"You may find it comparatively easy to agree that the needed coins, circulating notes and the former volume of bank credits, should be issued direct to the people, without the intervention of private banking institutions, but unless you go **still farther,** you will find yourself in a rather puzzling situation, at least it was so in my experience."

"For, after you have supplied borrowers with the amount represented by the coins, notes and bank credits, you will find other borrowers with equally good security asking you to supply them also, and not compel them to borrow from private sources. Or, if you have loaned but a very small ratio to se-

curity, so that all borrowers would get a portion of your public service, you will find your borrowers still compelled to depend upon private loans to a very large extent. You will find them insisting that you supply a volume sufficient for all their legitimate needs and you will seek in vain for any good reason for not providing it. Every argument that upholds your action in furnishing a part of the volume will be equally powerful in the demand that you supply it all, or as near the total volume as conditions will permit."

"The borrowers will establish that it would be disastrous to attempt to run business upon the limited money medium volume provided by such half-way public measures, and that the people would still have to depend very largely upon private sources in order to secure the volume that is in actual and effective use."

"The borrowers will admit that it was good so far as it went, but that you left them in a rather peculiar plight, like the two persons who had their choice of taking a large blanket one-half good and the other half very inferior, or two small blankets, one good and the other bad. If they choose the large blanket, both had to suffer in part from the poor section of it, while if they chose the smaller blankets, one had ample and satisfactory covering

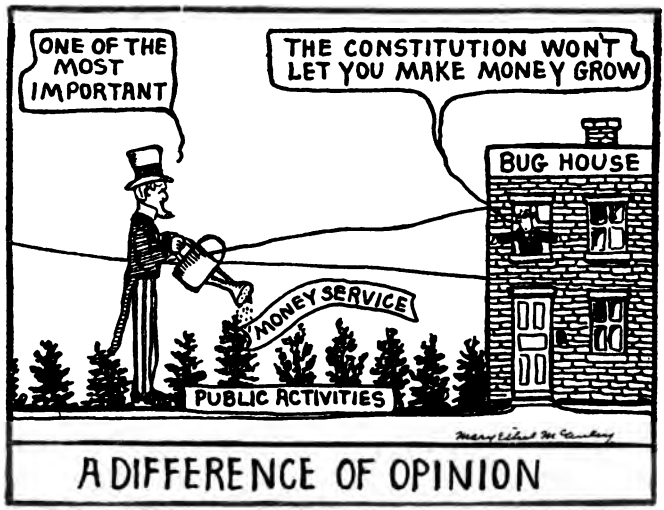

GIVE US BETTER COVERS
PUBLIC MONEY
PRIVATE MONEY
WHAT IS IT, BOYS?
GOOD, BUT NOT ENOUGH OF IT
FINE
PUBLIC MONEY SERVICE
HOW'S THAT
ADEQUATE TO THE NEEDS

while the other would have to be content with very inferior covering."

"If the development of the money medium had not proceeded beyond that point, it would have been an improvement over former conditions of **less public nature,** but it would still have left you somewhat in the position of the man who tried to sprinkle a rather large garden with a small can of water. The water would be good, but not in sufficient quantities to produce the desired effects. Or it would be like an irrigating system with a water supply equal to but a part of the demands placed upon it."

"As you come to realize the essential sameness of function of all forms of the money medium, you will clearly grasp why it **should all be issued and regulated publicly.** Instead of viewing it as a private matter, to be interfered with as little as possible by the public, you will recognize it as a **thoroughly public matter, to be interfered with as little as possible by private interests.**"

"With such recognition, not only will there come an appreciation of the great magnitude of the money volume in actual use and a corresponding appreciation of the duties and obligations placed upon our government by the apparently simple requirement of the Constitution, '**to coin money, regulate the**



value thereof,' but you will find the **whole subject opening up in logical and orderly sequence."**

"Speaking of the Constitution reminds me that in former years there was more or less difference of opinion among the people as to just what the Constitution did provide for along the lines of money medium. One of its provisions was to prohibit the various States from making anything but gold and silver a legal tender. Hence, it was inferred by many that such provision indirectly limited the national government to gold and silver, although there was no direct provision making anything a legal tender,

or requiring national or state coinage of either gold or silver."

"The provisions were very loosely worded, perhaps purposely to dodge or avoid giving definite expression for fear that it might have precipitated a wrangle upon the lines dividing national and state activities. The court decisions have generally been along the lines that Congress was given a 'general power' to provide the money medium, just the same as it is given power to provide an army and a navy."

Had Congress attempted to confine its army and navy, the postal system and its many other activities, **to the scope and methods in vogue at the time of the framing of the Constitution,** we would cut a very small figure in the world's progress and it is a very reasonable construction that Congress has ample powers, under the Constitution, **to develop its money medium along the most modern and improved lines, just as it does its other activities."**

"But I find myself getting away from our subject. As I said before, it is hard to keep down to a recital of our progress, as there are so many temptations to discuss the reasons for such progress, or why it had been so long delayed."

CHAPTER XI.

Investing of Bank Deposits in Bonds And Mortgages Essential Under Old System—Unnecessary Under New System—Private Influences Could Upset Affairs at Any Time—People Should Have Right to Store Money if Desired—Extension of Public Loans. Former Bond And Mortgage Money Sought Productive Channels—No Inflation Caused By Changing of Methods.

"Under the old system, private individuals and associations had vast power to affect the volume of circulating medium by buying bonds freely or by refusing to do so, and their actions were determined by their real or fancied belief that the bond issue in question would, in itself, be a good or profitable investment."

"An individual bond issue was seldom, if ever, considered as being but part of a much larger aggregate of money medium, the various parts of which must be rather stringently regulated in order to secure the very stability of value which in turn would so largely decide the success or failure of the individual bond issues."

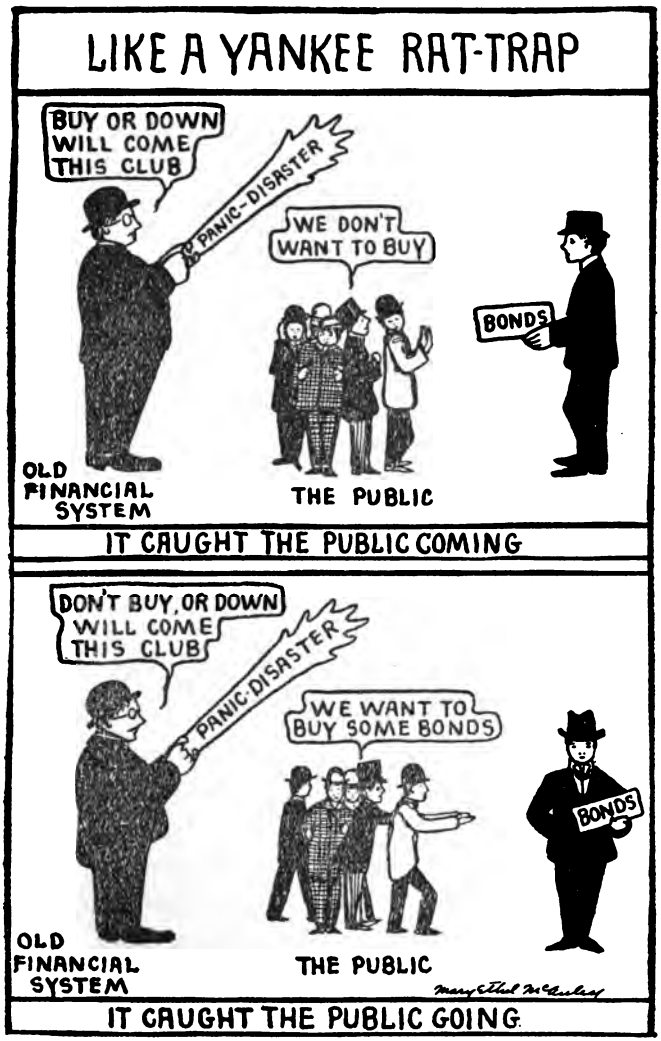
"Under the old system it was as imperative for the depositors to re-invest in bonds and mortgages as it was for the banks to make their loans. For the

people to have allowed their deposits to remain intact, or until such time as they desired to use them in the supplying of their personal needs, would have tremendously restricted the volume of circulating medium that has been employed and have prevented the development of the national and individual well-being."

"The regular operations of industry of all kinds was in large degree dependent upon the ability to increase the volume of exchange medium by a regular flow of bank deposits to bonds and mortgages. In fact, the work could not have taken place in the absence of the volume of exchange medium that was secured by such process."

"Anything that served to prevent, interrupt or stimulate the flow of bond and mortgage issues was to that extent a regulation of the volume and working of the exchange medium."

"At times private interests would exercise great power in determining bond and mortgage issues. They would make it appear as if everything was bound to boom and **people would buy bonds freely,** perhaps greedily. At other times, they would make it appear as if everything was on the slump, 'nothing safe,' and the **people would refuse to invest as usual,** which would **make** a slump, even if the prior conditions had not been of sufficient weight to do so."


LIKE A YANKEE RAT-TRAP
BUY OR DOWN WILL COME THIS CLUB
PANIC-DISASTER
WE DON'T WANT TO BUY
BONDS
OLD FINANCIAL SYSTEM
THE PUBLIC
IT CAUGHT THE PUBLIC COMING
DON'T BUY, OR DOWN WILL COME THIS CLUB
PANIC-DISASTER
WE WANT TO BUY SOME BONDS
BONDS
OLD FINANCIAL SYSTEM
THE PUBLIC
IT CAUGHT THE PUBLIC GOING

"Through some or many of the various channels that could be and were used, selfish private interests, to further their own ends, would make the individual depositors feel they were entirely safe in investing, that they could realize in full upon their bonds at any time; or they would make them so timid that they kept their deposits intact, or bought nothing but the most 'gilt-edged' of bonds, as the only way to be sure that they would have funds on hand to meet their personal expenditures from time to time."

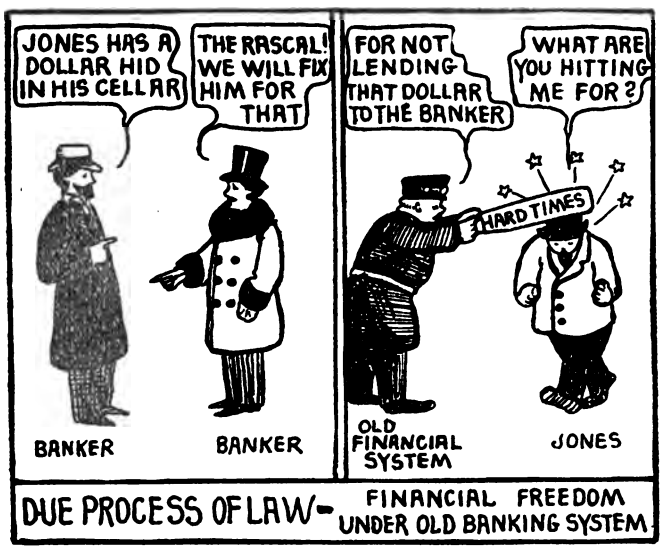
"A 'bull' or 'bear' raid upon the public by great financial powers, acting through a forced contraction or inflation of bank loans, though very important in itself, **would often cause a much larger disturbance by the manner in which it influenced depositors to buy or refuse to buy bonds and mortgages.**"

"There was always a large measure of absurdity and grotesqueness in the operation of the old system, for its success hinged so largely upon the probabilities of people doing things which were purely optional and which they were not under any compulsion to do."

"To illustrate.—Suppose a man had produced a bushel of potatoes more than he needed for immediate use, but for which he would have use during the following winter. Instead of keeping the potatoes in his cellar, he elected to sell them to another for a

certain sum of money, say one dollar, which was mutually agreed upon."

"People will readily admit that he had a natural right to keep the potatoes until such time as he desired to eat them, but it would also appear as if he had just as much right to take that money and store it away in his own private safety place until such time as his need for potatoes would call it forth."



"We might think he was foolish and perhaps he would be, for he might not have a very secure place to keep it in. But it would be hard to discover any

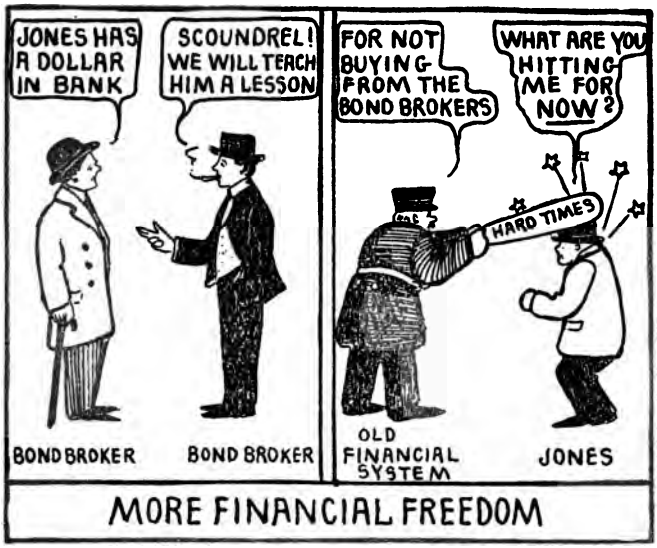
reasons why he should be prohibited from so doing if he felt like taking the risks."

"But the old banking system practically said to the man that he **must not keep the dollar in his pocket or elsewhere, but must deposit it in the bank.** The bankers could not plead safety or a desire to secure the man from losing his money as their justification for insisting that he bank it, **for their real reason for so doing lay in the fact that they wanted and must have his dollar as a deposit, so that it could be worked into a loan to others by the bank."**

"But the old system did not even stop at that point. After the man had deposited the dollar and the banks had made a loan upon the strength of having the dollar as a deposit, its normal operations required that the man **must invest his deposit in bonds or mortgages.** The system became very much deranged if he balked or refused to comply."

"Is it any wonder that we had financial panics and flurries, booms and depressions, in the old days, when overnight **selfish individuals could precipitate conditions that would speedily result in vast reductions or vast increases in the volume of bonds and mortgages,** without the people having power to check such process or neutralize the effect that would be produced by such changes?"

"Being firmly convinced of the wisdom of the course we were pursuing, when we had reached the



stature of fifteen billions in our bank operations, we kept right ahead and took actions to further increase the volume of money medium issued and put in operation through our bank and correspondingly reduce the amount that was still being provided by private individuals and associations."

"The demand upon our bank for loans was still large. Great numbers of borrowers, with equal security, were anxious to refund or transfer their loans to our banks and get the advantage of our three and one-half per cent loaning rate. All they needed was an opportunity to do so."

'Due to the fact that we had only worked our volume of business up to about fifteen billions out of a total available field of forty or forty-five billions, we had been compelled to restrict our loans to a rather limited ratio of the security."

"We began to increase gradually the ratio of loan to security. The borrowers began to refund or transfer their loans to our banks. People became clear of indebtedness to the former bond and mortgage holders and became indebted to our banks instead. Our bank became the great holder of bonds and mortgages."

"It did not take long to accomplish such transfer of indebtedness. The credits or funds for such extension of our loans was provided by our new system and did not depend upon deposits. The deposits of our banks grew rapidly, but were really a result of making the new loans and not the cause or means of making them."

"As the former holders of the bonds and mortgages thus became paid off with our new volume of money medium provided by the additional loans of our banks, they found the bond and mortgage field becoming closed to them by our lower rate competition."

"They had to either purchase property and go into direct productive industry, deposit their funds in our banks at two and one-half per cent interest,

or store it away in their private safety places. You will readily see why none would accept the latter alternative, so it resolved itself into a question as to whether they would become actual investors in industry or depositors in our bank."

"If they bought property and went into active industry, they would have lessened both the ability and the need for others to borrow quite so freely. If

they choose to put their funds in the bank, as inactive deposits, other people would have continued to do the borrowing."

"The equilibrium would not be disturbed either way and it was a matter for each of the former bond and mortgage holders to decide whether to be satisfied with two and one-half per cent return on deposits in bank, get busy and try to make a larger return by productive industry, or to combine the two in some degree."

As a matter of experience some of the former bond and mortgage holders did one thing and some did another. The real lazy drones kept their holdings as deposits, although they grumbled a good deal at having to accept less rake-off in interest than what the bonds and mortgages formerly netted them."

"Thus we gradually, yet speedily came into possession and regulation of the great bulk of the entire money medium in use, and the borrowing public was rejoicing at having been able to secure their money service at a three and one-half percent rate instead of the former higher rates."

"At that time, the volume of money medium represented in the totals of our bank, was approximately forty or forty-five billions of dollars. Since then the regular growth and development of the country has brought the volume up to the present

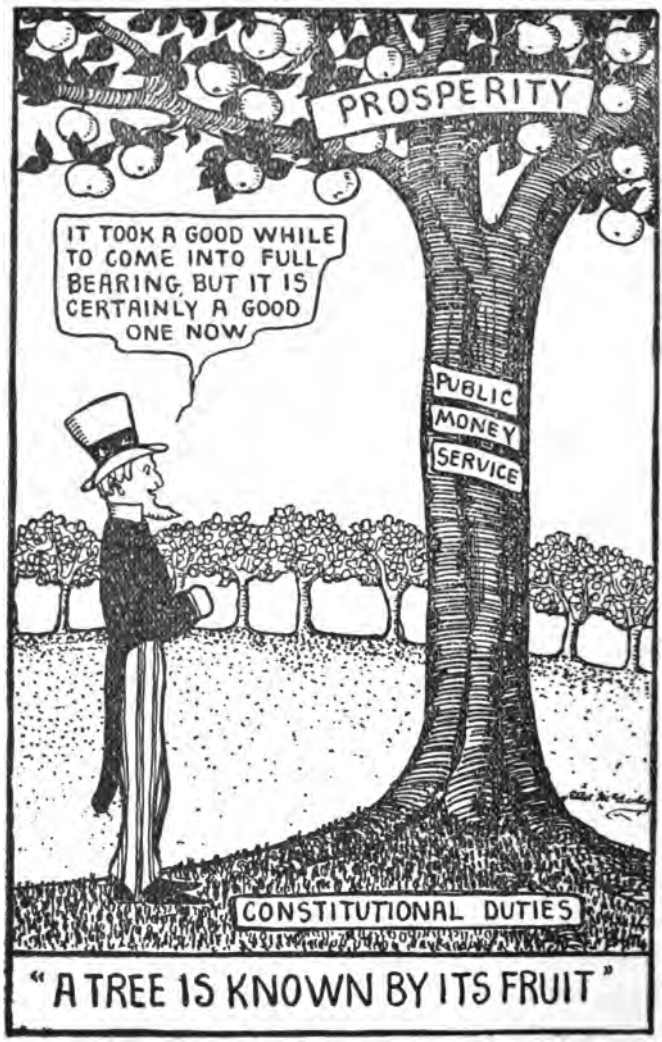
total of sixty billions. The other banking institutions then had about ten or twelve billions of dollars in volume, which has since been increased to the present total of fifteen billions."

"Then when it was summed up, **your banking operations had really been more in the nature of doing away with a dependence upon private and corporate bond and mortgage money than a matter of taking over the kind of loans the other banks had been making?**" questioned Mr. Borden.

"Oh, yes, very much so," replied Uncle Sam. "So far as the volume is concerned, I don't think we took over half of the loans the other banks had been making, for they were, in large part, not of a kind that was feasible for us to handle. Even while we were developing our volume up to the fifteen billion size, much of that volume was not derived from a transferring of loans from the former banks, but was the result of replacement and refunding of bond and mortgages held by private interests, just as later on we replaced the larger volume of the bond and mortgage indebtedness."

"Our volume of forty billions at the time when we had completed the establishment of the money service upon a real public basis of issue and regulation, or its present volume of sixty billions, **is not in any sense an inflation of volume.**"

"It is simply the same volume that would have



"A TREE IS KNOWN BY ITS FRUIT"

been created and maintained through the combined public and private channels under the old system. Or, rather it is the volume that would have been required under the old system to maintain its present value. It is impossible to even make a guess at what volume the old system would have produced at this time. It was so uncertain that it might have been very much larger or very much smaller."

"At last we had fulfilled the Constitutional obligation to **'coin money, regulate the value thereof.' We were coining it in the form best adapted to modern conditions of industry and commerce.** We were regulating its volume so that a stability of value, or average purchasing power, would be maintained indefinitely."

"But we were not altogether through with our program to make our money service of greatest possible usefulness to the people in general. We had made a good start, but one of the most important objections to the old system had only been **partially** removed and it yet remained for us to **complete** such removal."

CHAPTER XII.

Money Service Cheapened—Interest Upon Bank Deposits Abolished—Interest Upon Loans Reduced. Practically Costless—Effect of Interest Illustrated. A Drain Upon Production—Interest Upon Money in past Years Due to Inability to Secure a Public Service—Relief Possible Only By Public Supply at Cost of Service.

"I notice by the leaflet that the deposits in your banks at the present time do not bear any interest and that the loans only bear a charge of two per-cent. How and when did you reduce those rates from the two and one-half percent for deposits and three and one-half percent for loans? And why did you make such reductions?" inquired Mr. Borden.

"Your former actions in reducing the interest rates upon loans to three and one-half per cent must certainly have had a very favorable effect upon the popular welfare, but to continue such reduction down to two per cent must have doubled the benefit to the borrowing public."

"In reality, the benefits must be still larger, for it seems that you now have a clear profit of approx-

imately nine hundred millions of dollars annually upon the sixty billions of loans at a two per cent rate. This profit alone is equal to one and one-half per cent upon the volume of loans, and since it is a public revenue, it really reduces the net interest rate to one-half of one per cent. As the one-half per cent is used in the actual expense of running the system, you might say that **your loans do not entail any real interest charge.**"

"Since your public banks provide for sixty billions out of a total volume of seventy-five billions of loans outstanding at present, or four-fifths of the total volume, **your two per cent loan rate, with all profits going into the public treasury, means that you have entirely abolished interest in four-fifths of the money medium** and your actions have served to reduce the rate in the one-fifth of the volume where interest is still collected."

"Why, Uncle Sam, viewing the volume as an entirety, **your money service must be practically costless at the present time.** This is indeed a remarkable condition of affairs."

"That was the phase of the subject that I was just about to explain," said Uncle Sam.

"Yes, our money service today is practically costless and, while our people now accept it as a matter of fact condition, I suppose it may seem to you to be quite remarkable, especially in contrast

with what it was years ago, when interest charges and rates entered so widely into every kind of business calculation and activity."

"But perhaps the most remarkable thing about the situation was the ease and simplicity with which such change was brought about."

"Let us take up the first of your questions—that referring to the time and manner by which we reduced the interest rates upon deposits from two and one-half per cent to nothing, and the interest rate upon loans from three and one-half per cent to two per cent. It will not take very long to outline how we effected the same and we will then be in better shape to discuss our reasons for making such reductions and the results brought about by them."

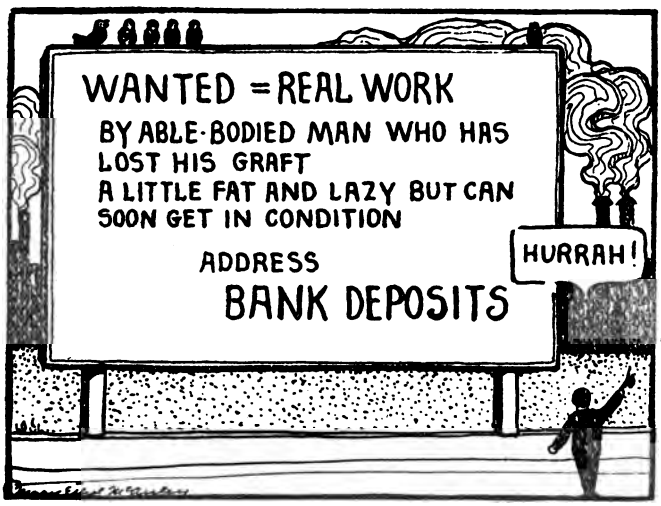
"We started work upon such reductions immediately after coming into possession of the issue and control of the money medium as I have previously sketched it,—that is, at the point where the volume of business in our banks was equal to about forty or forty-five billions."

"We did not plan or expect to attain the full measure of such reductions at once, but mapped it out so as to be reached by gradual stages covering quite a period of time."

"This delay was to enable the depositors to have time to investigate prospective investments, should they decide that they could not afford to hold non-

productive deposits. We were not so much concerned about individual depositors, but we had at that time many organizations and associations of more or less public character that were in large measure dependent upon the two and one-half per cent income they were receiving on their deposits. We did not deem it fair or wise to upset their plans and force them into immediate investments, which, on account of such haste, might not be as wisely determined as they would be if enabled to make them gradually."

"**So far as the loans were concerned, we could have made the entire reduction at one sweep,** but, unless we could do away with the interest upon the



deposits at the same time, our banking operations would have resulted in a large deficit, which would have had to be met by taxation. This would not have been justified and, to avoid such deficit, we could not reduce the rate upon loans except as we reduced the rate upon deposits."

"Our first move was to reduce both loan and deposit rate one-half per cent. We followed this up later on with other reductions of one-half per cent each. Our loan rate we stopped at two per cent, but we kept reducing the rate paid on deposits until finally we did not pay anything for them."

"As we reduced the rates, part of the former depositors, not desirous of entering active industry, continued to keep their deposits intact as savings. Others went into the market and purchased property from persons who thought they were circumstanced to take things easy for a while. Others sought new lines of industry and invested in development work that has been of vast benefit to us."

"It was an adjustment satisfactory to all parties concerned, each getting what to him would be the more advantageous disposition of his resources. We have this same process of changing resources from active to inactive form, or from inactive to active form, constantly taking place, as the age, health and other human conditions have their relative ebb and flow."

"The deposits in the banks remained intact as before, although there was a change in the ownership of some portions of it, as depositors became property owners and property owners became depositors."

"The volume of loans remained intact, for the new owners of the property had need for a money medium just the same as the former holders of the property."

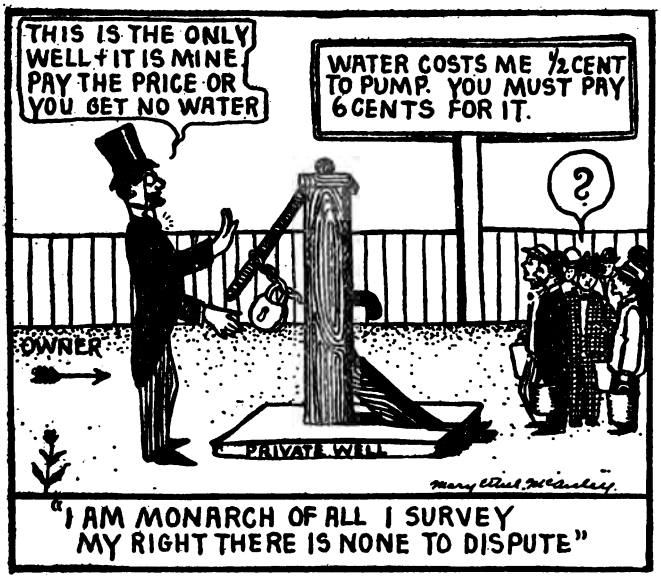
"In fact, the readjustment caused somewhat of an increase in both loans and deposits. This arose from new lines of industrial activity that were opened up and developed. Such additional industrial activity and development required a larger volume of money medium to carry it onward. This additional volume came into existence through loans and became deposits in the same manner as other loans had become deposits."

"When thoroughly analyzed, the successive steps by which we have practically abolished interest appear very simple. **We made it possible for borrowers to get their money service direct, at cost, and thereby not only made it unnecessary for borrowers to depend upon private money holdings, but made it impossible for private holders of money to draw the accustomed interest upon their holdings."**

"To illustrate the situation: Suppose a community of people with but one well of water to sup-

ply their immediate needs and for the irrigation of the soil upon which they were dependent for their living. That one well is owned by a private individual who charges them six cents per barrel for all the water they take away from his well. It costs him one-half cent per barrel to draw the water, so **he makes a clear profit of five and one-half cents per barrel. He lives without labor and enjoys the choicest products of the community by reason of the fact that he controls the water supply.** By every direct and indirect means he instills the belief that there is no other supply of water attainable. By such methods and from the settled habit of always going to his well for their water and paying six cents per barrel for it, the community becomes so accustomed to the practice that it accepts the established order as perfectly right and proper, not to be overthrown or materially altered."

"But, after awhile, it became apparent to the general run of the people that something was not altogether fair. They could see that the well-owner, his children and their descendants forever would be living in idleness and upon the proceeds of their daily toil. They began to inquire closely into the reasons for such condition and found that **it was due to the fact that the well was a monopoly and that five and one-half cents out of every six cents paid to its owner was clear profit."**



"But the other fellow owned the well. His father and grandfather had owned it before him. His chain of title seemed to be perfect and no one felt that they would be justified in confiscating his property. Neither could they altogether bring themselves to the point of saying that he must supply their water for one-half cent per barrel, just what it cost to draw the water from the well. Each of them contended that he had the right to sell or exchange his own property as best he could, get as much as possible for it, and he could hardly see a way clear

to denying the owner of the well the same privilege."

"In some manner, one of the members of the community, who had been thinking rather hard upon the peculiar situation, which apparently doomed them to be servants and slaves of the well-owner, hit upon the idea that perhaps there was more water in the neighborhood and that if it was possible to find and tap a new supply, the owner of the well would be deprived of his unjust position of dominance."

"The matter was put before the other members of the community, who hoped it would prove successful. A meeting was held and organization effected. It was agreed that each would share in the work of digging a new well and that, in the event of striking a supply of water, it should be distributed to all alike at the actual cost of drawing it."

"The owner of the other well fought and stormed against the proposal, branded them as idiots, anarchists, etc., but the digging of the well proceeded."

"Water was struck in abundance for all, if rightly handled. There was great rejoicing throughout the entire community, except in the quarters of the owner of the other well."

"The people placed their own operator in charge and, from that time onward, their water supply was on a costless basis. They did not pay tribute for it."

"The other fellow still had his well, but he had

no customers. He could draw the water, but he then had to **devote his energy to putting it to use** before he could get a return for it. He had to become a wealth **producer** instead of remaining a wealth **absorber.**"

"Under the old banking system, our dependence upon borrowing deposits to provide us with an exchange medium was very much similar to the predicament of the community that depended upon the privately owned well. The people had to pay the toll demanded by the depositors and be subject to all the variations of the volume they would provide."

"We provided our own money medium by tapping the supply direct and without a collection of toll or profit, and the advantages to the people by so doing are quite clearly in evidence."

"How do you account for the failures to abolish interest in past stages of history?" asked Mr. Borden. "From reading history, it is apparent that interest-taking has always been more or less under a stigma or disfavor and there have been many efforts to abolish it. How do you account for its continuing so long before its power was overcome and the people freed from its grip?"

"In answer to your questions, suppose we refer back to our illustration of the well," replied Uncle Sam. "Suppose that you had been the owner of the well, and the other members of the community had

A MONOPOLIST SHORN OF POWER
(APPLY THIS ILLUSTRATION TO MONEY SERVICE)

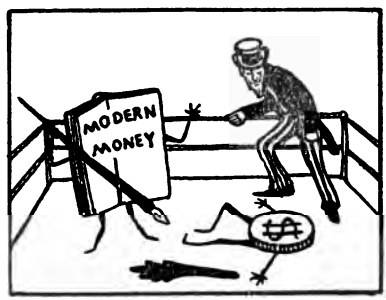
called upon you and said they knew the well was your property, that you would be protected in its ownership, but that you should give the water free or not charge more than actual net cost for it. What would you have done under such circumstances?"

"Well, to be honest about it," replied Mr. Borden, **"I think I would have recognized that my 'soft snap' was in jeopardy and I would have prepared to fight for its retention.**. I would probably have put a lock on the well and told them to do without water until such time as they were willing to pay the rate. It would have been a very much one-sided proposition and could only have one ending and that would be their surrender and return to the regular order. I suppose that a good many of them would come around after dark and pay me perhaps a still higher price for a little of the water. **In the end I would be the victor, because I had the water and they must get it from me."**

"That is exactly the reason why so many past attempts to abolish interest proved such flat failures," said Uncle Sam. **"They failed because they did not provide an alternative supply of money service.** The people could do nothing without an exchange medium and as those who had money holdings, or savings, possessed what was considered to be the only supply obtainable, all they had to do was to 'sit tight,' wait a little and the people would be very

glad to resume their borrowings from them and at the regular rates. **To do without the money service was worse than paying the toll and every law that tried to reduce interest, by mandate alone, was foredoomed to disaster, for the people would find countless methods to circumvent it.**"

"All our actions for the reduction or abolition of interest were based upon the ability to substitute a **better** and **more efficient** money medium than what we had depended upon in former years. We replaced the old and antiquated with the new and more modern. The old system passed from us, not in response to mandate or force, **but because it could not successfully compete with the new methods,** just as any piece of labor-saving machinery has displaced the more crude methods of past years."



CHAPTER XIII.

Great Benefits From Abolition of Interest—Interest Paying Habit Created a Sort of Prejudice in Its Favor—Public Gradually Realized That it Was An Un-Earned Increment—Cut Off at Its Source. Welfare of People Advanced—Interest Opposed to Natural Processes—Money Medium a Boon to Individuals—They Would Degenerate and Perish in Its Absence.

"As the interest rates upon both loans and deposits were being reduced, until the rate upon loans had reached two per cent and interest upon deposits had ceased entirely, the people began to realize in fullest measure the fundamental nature of the change that had taken place and of its wide-sweeping bearing upon their welfare."

"From the standpoint of the borrowers, who are really the mainsprings of industrial activity, they had been enabled to get their money service at cost. **Their operating expenses were correspondingly reduced. Their net incomes were proportionately raised,** for they did not have to set aside the customary amount as interest charges. They came that much closer to reaping the entire results of their labors."

"I hardly think it would need any argument to prove that a reduction or abolition of interest would be a good thing for borrowers, provided, of course, that it did not lessen the efficiency of the money service," said Mr. Borden.

"From their point of view it would be a question of how to secure such end. The advantages to them of a lower rate would be so obvious that it is unnecessary to waste time in elaboration."

"And I can easily see that, if the borrowers could contrive or invent some plan by which they secured the service at a lower rate, or even without payment of any interest, they would not need to go into mourning over the fact that those who had been collecting high rates of interest might find themselves unable to get borrowers except at a lower rate, or even find themselves unable to lend their money at any rate."

"In my own experiences as a borrower, I always felt perfectly justified in borrowing where I could get it the cheapest. I never felt that I was robbing a man who held his holdings for eight or ten per cent when I passed him by and dealt with a person that was satisfied with five or six per cent return."

"Yes, quite true," resumed Uncle Sam. "But do you know it was rather difficult for some people to realize that the question was one that could be viewed or discussed from the standpoint of the bor-

SIMPLE ARITHMETIC

EXAMPLE-A

SMITH PRODUCES	100
MONEY SERVICE TAKES	10
SMITH HAS FOR HIMSELF	90

EXAMPLE-B

SMITH PRODUCES	100
MONEY SERVICE COSTLESS	0
SMITH HAS FOR HIMSELF	100

WHICH IS BEST FOR SMITH?

rowers' inherent right to seek for ways and means to provide their own service, at the least possible cost, without being compelled to pay an interest toll to others?"

"The habit or practice of paying and collecting interest had been so long existing, and so closely interwoven in affairs of every description, that **many people had come to consider those in possession of moneyed holdings, or savings, as being thereby entitled to a return upon them.** They had come to consider that the wealth producers were under some obligations to pay tribute to such holdings."

"A man might own a farm, but his deed of own-

ership did not carry with it any feeling among his neighbors that they ought to carry over a portion of their product each year and make him a present of it. They would rightly feel and say that he should plow and cultivate his fields or stand the consequence of his inactivity. But the very minute the lazy old hulk would sell his farm to an industrious person and put his sale proceeds in money form, many of the people would feel that they were under some obligations to provide an annual return to him."

"From being so long compelled, in the absence of a public service, to go to private sources for their supply of money service, and finding that they were not only compelled to pay an interest toll for the use of such service, but that it was better to stand the toll than do without a money service, they had come to regard a money service from private holdings as a natural and indispensable condition, endowed with a sort of 'divine right' to exact payment from its use."

"This feeling for a while hindered the installation of our present costless service, because to many it appeared as if it would involve doing an injustice to those who had been furnishing the supply of money medium."

"This hesitancy disappeared as the people more and more fully realized that the owners of moneyed holdings held their wealth in such form because they

preferred not to risk the troubles and worries attached to the ownership and management of the actual wealth and that it was voluntary on their part."

"The borrowing public, as a whole, **saw the absurdity of any permanent contribution of toll to those who would deliberately and of their own volition drop out of productive industry."**

"Those who were in actual possession of the great wealth productive forces of the nation, those who did the real brain and muscle work, realized that they were acting wisely in getting rid of the dead weight they had been carrying."

"As a whole, the net wages of the industrious rose in the exact proportion that the channels of industry became freed of the vast drain that had been made upon it by interest charges."

"Employers could afford to pay and employees could force better wages, for, under the old system, **interest charges had to be paid from the product before either employer or employee could share."**

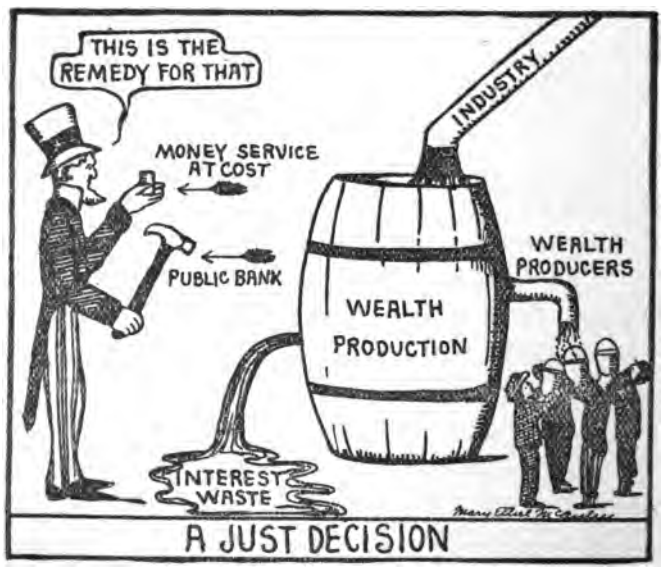
"Governmental sub-divisions of every kind were enabled to do away with the annual payment of large sums of interest and taxation was either reduced or extra benefits secured by the same volume of taxes."

"Quasi-public corporations of every kind were enabled to 'plug up' one of their big leaks and the people secured their services at reduced prices or se-

cured more and better service for the same charges."

"In almost endless ways, we could follow up and establish the benefits accruing to borrowers from the abolition of interest, for every line of industry, large and small, was so honey-combed with the necessity to pay toll for their exchange medium that **not a single article was exempt from paying some portion of the tribute."**

"From the standpoint of those who had been collecting the toll of interest, the situation also became very much altered. It was the other side of the picture."



"They found their stream of un-earned increment cut off at its source."

"Some had large holdings of bonds, mortgages and deposits in the banks while others had but small holdings, but all found out that those holdings would no longer automatically increase without effort or industry on their part."

"They could no longer 'eat their cake and still have it.' They could no longer live upon the interest of their holdings, leaving the principal intact, but found that they must either keep on as producers or eat up their savings."

"Every person then realized that when he exchanged his property for money holdings he did not thereby acquire any right to have **returned** to him any more wealth than he had **parted** with. Every person then realized that the increase of wealth, due to industry and application, was to remain with and be enjoyed by those who worked and not even in part by those who deliberately shirked doing their share of such productive labors."

"The interest gatherer was unhorsed. He was soon made to understand that he must pull his share of the load, as justice and fairness dictated. He was made to realize that if he elected to keep out of industry, and eat up his savings, that the time would come when his necessities would again force him into the ranks of the industrious and useful."

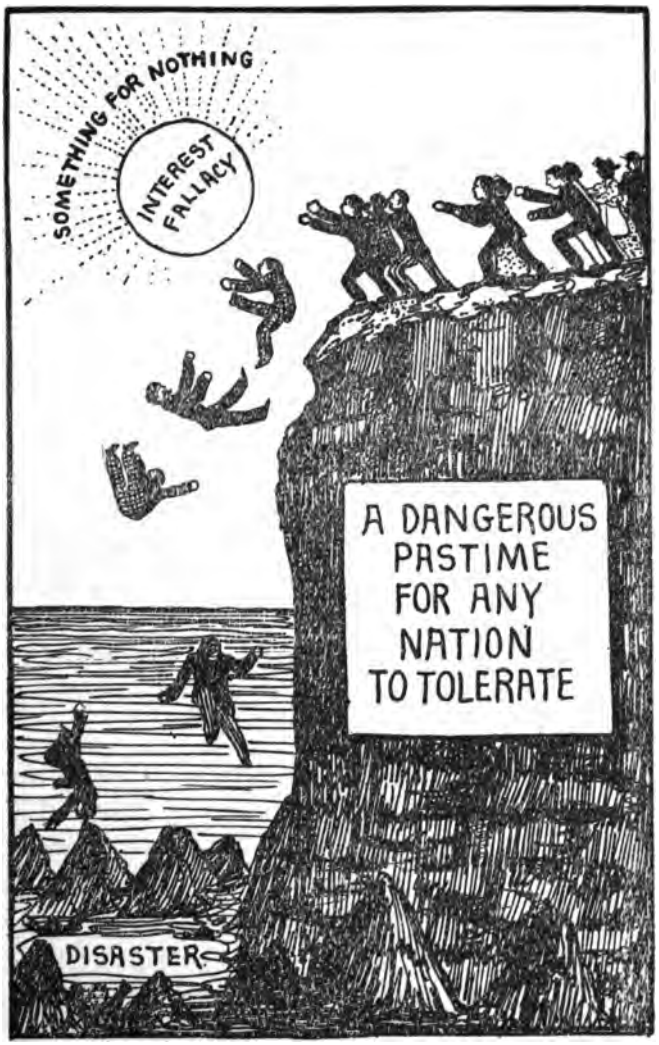
"The owner of money holdings was made to understand that he would be amply protected by having the money medium kept at a stability of value, so he could get back from time to time just as much of average goods as he had parted with in making the money accumulations."

"The abolition of interest upset most of the plans that had been laid, and which were in too large degree carried forward, looking to the creation of a moneyed aristocracy that could live indefinitely upon interest collections and forever keep the mass of the people in a greater or lesser degree of servility and dependence."

"The abolition of interest worked mighty changes in the relations of man to man and they began to see more clearly that **the real advancement of the individual was not inconsistent with the welfare of the general public and that the best interests of both worked in almost perfect harmony.**"

"Under the lure of the interest fallacy, the desire to **'get something for nothing,'** people were oftentimes demoralized and seemed to lose sight of the fact that wealth required **production.** They sought to get rich by pure speculation, fair or foul, without contributing one iota to the sum total of human endeavor required to increase real wealth."

"I suppose it must have always been apparent that increased industry and efficiency alone could


SOMETHING FOR NOTHING
INTEREST FALLACY
A DANGEROUS PASTIME FOR ANY NATION TO TOLERATE
DISASTER

make an increase of total wealth and that it would be impossible for all persons to be benefited by interest collections. But it took a rather long time to convince all the people that it was an exceedingly dangerous proposition to tolerate a practice which, in the very nature of its operation, could not be of benefit to all."

"It was a sort of gigantic lottery in which the losers vastly out-numbered the winners, but wherein all pursued the 'will o' the wisp' in the hope that they might be the lucky ones."

"The people got a clearer idea of their interdependence, of the folly of trying to 'get something for nothing,' when they realized that industry as a matter of right was entitled to the full measure of its production, that as a matter of public policy it was very advisable to protect it in such right and that the collection of interest charges was one of the methods by which such right was subverted and denied."

"When interest collections were cut off, it had the effect of transforming many drones into useful active members of society, thus getting rid of much social quarreling and disputing as to who should stand the major portion of the burden of feeding and caring for them."

"In the final analysis, the taking of interest, the reaping without sowing, involves a physical impos-

sibility and is a direct negation of natural processes."

"Every form of man-made wealth is subject to deterioration from the moment of its completion. The most substantial structures of the most imperishable materials that can be found or manufactured are all subject to various natural forces that work for their destruction and decay. Left to themselves, some will withstand the ruthless ravages of Nature longer than others, but sooner or later all must acknowledge their defeat."

"Constant and unremitting labor is required to prevent or delay the forces of Nature in their work of destruction. Without such continued expenditure of labor all the productions of labor become unfit for use by mankind."

"It may require years for some things to become seriously impaired. For others, months, days and even hours, may work a total loss."

"A few things may improve by a little brief delay, but they, too, soon pass into and become a part of the endless stream of man-made wealth that pours steadily onward to the oceans of unfitness and decay."

"Without constant labor and attention, our cities would crumble into ruins, our railroads, highways and navigable waterways would be but a memory; the various domestic fowls and animals would speed-

ily degenerate into uselessness; the grains, vegetables, fruits, nuts and the soil itself would revert to primitive forms totally unfit for human needs."

"If the articles of real wealth are subject to such inevitable destruction, is it not ridiculous to imagine that the money medium, which acts as a sort of representative of such wealth and is designed to facilitate the mutual exchanges of such wealth, should be given any power of automatic increasement?"

"It would seem more in harmony with fundamental conditions if the money medium was made to decrease in value in the same ratio that average

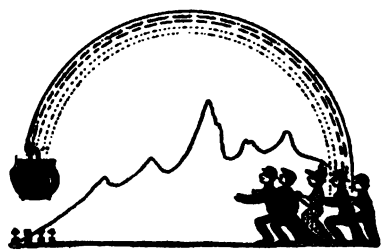
things will depreciate when left uncared for by man."

"Society, by the institution of money, not only enables individuals to work at greater efficiency but it gives them a power to satisfy future needs and desires to a degree that is vastly beyond the power of an individual to attain, no matter how great his present productive powers. Through the money medium, the individual is enabled to get the necessities and luxuries of life at a time when he may be totally unable to produce and **when every particle of wealth that he has actually produced shall have passed from all its usefulness."**

"Society, by the institution of money, gives individuals a priceless boon when it enables them to produce wealth, put it in non-destructive form, and then have the **full equivalent** of all they produced handed back to them at a future time, as their needs requires."

"Society, by the institution of money, in making return in full of all that the individuals had formerly relinquished, **has in reality stood good for all the losses of depreciation and has performed all the labor of upkeep that has been required** and which, in the absence of an exchange medium, must have been borne by the individual and which would probably have crushed him in the years of his least productive powers."

"So we don't feel that we have been in any sense unjust in the course we have pursued in our abolition of interest. We feel that we have simply been carrying forward the general policy outlined in the Constitution, 'to form a more perfect Union, establish Justice, insure domestic Tranquilty, provide for the common Defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity.' "



CHAPTER XIV.

Wide Distribution of Interest Partly Palliative. Vastness of Interest Collections—Terrible Effect if Centralized—Interest Collection Encouraged Idleness And Extravagance—Undermined Industry. Forced Division of People Into Classes—Injury Arising From Interest Aggravated By Frugality of Recipients.

"I have been absorbed in your discussion of the baneful effects of interest and of the necessity for abolishing it," said Mr. Borden.

"But is it not true that the evils were largely imaginary, or offset by other circumstances? To be specific, were not the logical results of interest frustrated, or at least alleviated, by the fact that much of the interest was collected in various ways by the same persons that were paying it? Was it not a sort of cancellation, at least to a very large extent?"

"Undoubtedly so," replied Uncle Sam. "A very large portion of the interest collected went back to borrowers and debtors in general, in some measure offsetting the injury they had sustained by its collection."

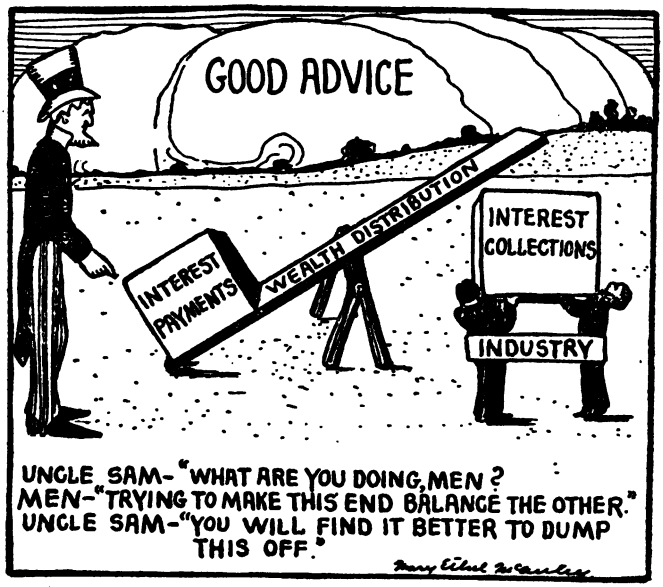
"Every person has what you might call a set of debtor interests and a set of creditor interests and they are so closely interwoven that it would be hard to schedule them. The very poorest have some creditor interests through which they receive back a portion of what they have paid through debtor interests. The richest have some debtor interests through which they must pay back a part of what they have received through their creditor interests."

"It would really be quite difficult to make a division of the people into debtor and creditor classes, for it is a hard matter to determine the line of division, to fix the point where debtor interests would outweigh the creditor interests, or vice versa. We can recognize the extremes quite easily, but there is a large 'twilight zone' that is very hard to classify."

"Were every person enabled to collect, as interest, the same amount they have to pay as interest, the one would counterbalance the other and they would be in much the same position as if they neither paid nor collected interest."

"In former years, it was the aim of many to encourage habits of thrift and saving among the masses of the people, for the expressed purpose of getting a wide distribution of moneyed holdings among the people. The large holders were sometimes discriminated against in favor of the smaller

holders. These actions were usually based on the supposition that interest collecting was unavoidable and the only way to escape its power was to have all share in its collection."



"It was certain that the whole people could not collect more than they paid. It was also certain that if a comparatively few would get immensely large moneyed holdings that they would collect much more than an equal share and that the balance of the people must be content with a much lesser share to divide."

"The moneyed holdings of individuals varied widely, running from abject poverty to the most fabulous riches. They were not always distributed according to the real worth or merit of their holders, sometimes the exact reverse."

"Interest, the power to levy tribute through moneyed accumulations especially when those accumulations encompass a vast range of variation, regardless of how honestly or dishonestly those accumulations had been made, was one of the most potent factors that helped to divide the people into hostile forces whose selfish interests were in conflict with each other."

"The very existence of a millionaire or a multimillionaire who, solely by reason of his ownership of moneyed holdings and through his power to collect an interest thereon, could command the entire services and products of scores, hundreds and even thousands of his fellowmen, was in itself proof that the average return, or possible return, had been greatly altered and to the disadvantage of his fellowmen. He could only get more than he could use or should have by their getting less than they could use and should have."

"The logical evil effects of interest were quite largely cancelled by being received by interest payers. Were this not true the results would have been

almost immediately and overwhelmingly disastrous."

"The total amount formerly collected in interest charges, and which would be collected now if we had retained the old system, was so vast that if it had all been collected and used by a few, the results to the people would have been calamitious. All except those few would have speedily drifted into the depths of poverty and destitution."

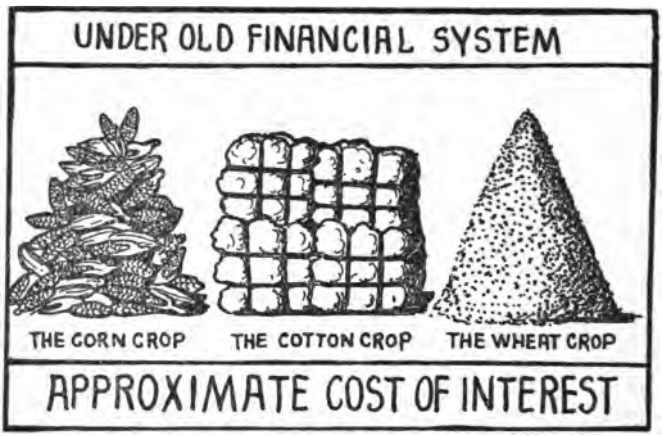
"For illustration, say that our present total volume of money medium, approximately seventy-five billions of dollars, was issued by one man at an interest rate of six per cent. Let us assume that it cost one per cent to have the business transacted, the remaining five per cent being clear profit."

"Five per cent on seventy-five billions of dollars is three and three-quarter billions of dollars, or almost as much as our entire crops of corn, wheat and cotton."

"Just imagine the tremendous power that man would have over our welfare."

"The only way we could pay him would be with our products or our labor. But he could only use a very small portion of corn, wheat, cotton or other ordinary products. We could only pay by our labors in some other manner than raising products. We would have to stop our useful work and begin making luxuries and extravagances for him."

"With such an income to spend, he could begin to spread the wings of his vanity a hundred fold beyond the wildest imagination of ancient rulers who had thousands and thousands of slaves to draw upon."



"The palaces of our most wealthy people would hardly be fit for the dog kennels of a man with such an income to spend."

"Every day of his existence would involve enough useless labor to put scores of ordinary persons in comfortable circumstances for the balance of their lives."

"Upon such an income it would be a small matter for him to order a mausoleum of such immensity and grandeur that all the Pyramids of Egypt com-

bined would be but as an apple compared to a football."

"The people would be forced to toil and starve, toil and starve, just as certainly as they did in the ancient days when rulers had only to command and the slaves did their bidding."

"Of course, this illustration is a rather extreme one, but it will bring out the point I want to impress upon you. The actual condition was modified by the fact that the interest was collected by many individuals, none of whom could approach the scale of extravagance outlined, but the principle of the thing remains the same."

"Every system or practice that enables some to live upon interest collections is fundamentally wrong and bound to work hardship upon the people in general."

"Every person who clipped a few interest coupons now and then, lived in idleness and possibly in luxury, richer at the end of the year than at its beginning, without any mental or physical exertions on his part, would be a direct burden upon the wealth producers, and as a matter of logic his position would have as little justification as if he had a monopoly of the entire interest collection. In a lessened degree, it produced the same results. **It would only require enough of such individuals to approximate the condition that would exist if it were cen-**

tralized in one person. I suppose you can recall many persons whom the shoe would have fitted rather snugly?"

"Oh, yes; I knew quite a few of them in the old days and even at the present time," replied Mr. Borden.

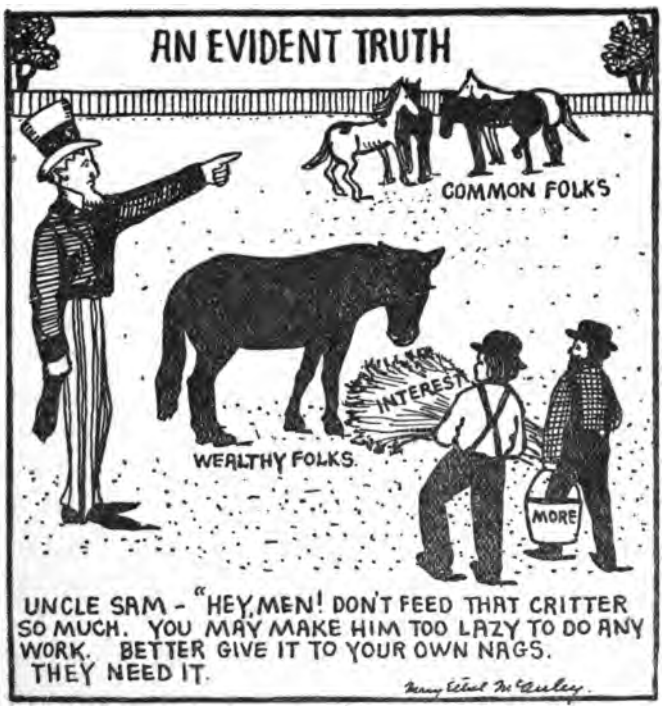
"I knew lots of wealthy men who were hard workers, some of them extremely useful and industrious, but I also knew others that were about as useless as the poorest loafer and lazybones we could find."

"In fact they were a great deal more expensive, for, while the common loafer could be satisfied with enough to keep his carcass alive, **the wealthy loafers had to get all kind of special care and attention.** They got the cream of production and service for their portion."

"I fully realize how it would be impossible for all of the people to be benefited by collecting interest from each other and also the unfair drain that has been made upon the wealth produced by the mass of the people, by the comparatively few who have been consumers of more than they have produced. But don't we owe a debt of gratitude to such of the so called 'wealthy class' as **have not consumed** as much wealth as their incomes from interest would entitle them to consume?"

"By **refraining** from such extra consumption,

did they not **entirely reimburse** the mass of the people and permit affairs to go on just as fairly and equitably as if they had not had any revenue from interest?"



"Would not the same result have been reached if all the wealthy classes **had lived modestly and frugally,** on just about the same scale of expenditure as

ordinary folks, either by voluntary action on their part or under coercive measures by the public?"

"Well," replied Uncle Sam. "I think we would have found it very difficult to make much headway along that line. We would have been directly combatting the natural instincts and inclinations of the people. **It is the most natural thing for people to extend their scale of living as their incomes increase,** unless those incomes and expenses are already so large that the mind cannot invent new avenues of spending."

"'An ounce of prevention is worth a pound of cure.'"

"It would be a very short-sighted policy to permit moneyed holdings to accumulate by interest collections with a hope or possibility that the natural and logical result might in some manner be prevented or lessened. It would be about as sensible as giving the baby a handful of matches for a plaything and try to satisfy yourself by thinking that you would probably be able to get the fire department on hand before everything was burned."

"It is surprising and gratifying that so many of the wealthy were able to resist the insidious and demoralizing influence that constantly beckoned them to drop their useful labors and become the idlers which their incomes would have permitted. It speaks volumes for their mental stamina and their

keen appreciation of the truth that all should be useful workers and not drones."

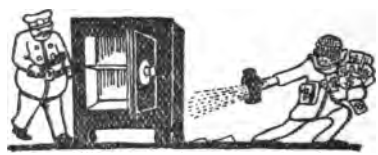
"Many of the wealthy class, with vast incomes, with great productive ability and energy, did not consume as much as they actually produced; they allowed their fortunes to pile up rather than live or waste it; **but it is really true that their actions made matters worse rather than better,** so far as the people were concerned."

"Under the old system every measure and impulse that tended to keep the wealthy from luxury and extravagance made it all the more difficult for ordinary people to get the common necessities and comforts."

"Under the old system every motive of thrift and saving that impelled people in all walks of life to consume less than they were producing and thereby have something laid by for 'rainy day' and emergencies, was really but hastening the time of such emergencies and making it more difficult to have the means at hand to meet them. The prudent, the thoughtful and the careful, acting from the most laudable motives, kept steadily choking off the productive capacities of the people. The spendthrift, the thoughtless and the careless, acting in defiance of all laudable motives, were the ones that in large measure helped to keep the productive mechanism

in operation, thereby enabling the prudent ones to work out a livelihood."

"These may seem like very strange statements to you, as it appears to be a self-evident truth that the popular welfare would be helped by anything that tended to stop the extravagances of the wealthy or that encouraged thrift and saving among the rank and file of the people. It seems so evident that the less the wealthy would consume, and the more savings among the people, the more wealth there would be left for consumption, that you may find it somewhat difficult to give serious consideration to any argument to the contrary."



CHAPTER XV.

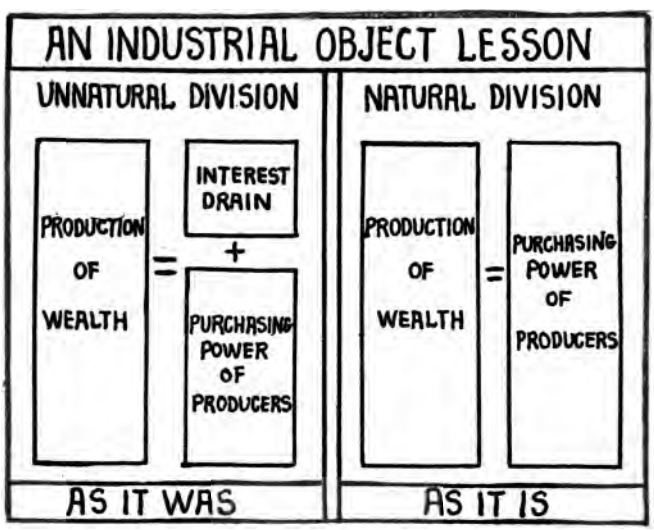
Money at Cost—Purchasing Power Equal to Production—Interest Collecting Destroys Balance—Interest Withdraws Money Medium From Exchange. Produces Collapse—Distress Aggravated By Economy—Conditions Relieved By Exhaustion or Heroic Measures—Sure to Return While System is Retained. Under Old System it Was Beneficial For Rich to Be Spendthrifts.

"To analyze the question of frugality and saving offsetting the ravages of interest upon money, let us assume a community of one hundred industrious wealth producers. Let us assume they were equally efficient in production and that each produced one thousand dollars' worth of wealth annually. Let us assume that each worked at the kind of work for which he was best fitted, exchanging products with each other so as to get the fullest benefits from each other's labor."

"Let us also assume that they did not pay profits to any person, but had the co-operative ideal so finely carried out that **each and all retained the equivalent value of his entire product and that each consumed the full value of his production annually.** Let us also assume that, as part of such perfect co-oper-

ation, they had a costless money mechanism of their own and that the total volume of money medium was one hundred thousand dollars."

"I think that would be a rather ideal condition if it could ever be attained," interrupted Mr. Borden. "And if the conditions would remain the same, I see no reason why a community of that kind should not enjoy a permanent prosperity, bounded only by its ability and efficiency in production. The more it produced, the more it would have to consume and enjoy. But I recognize that you are only making it as an illustration, a 'pointing a moral to adorn a tale.' Please excuse my interruption."



"I want you to take particular note of the fact that, under the conditions outlined, each member of the community would be able to **purchase** and consume an **exact equivalent** in value of what he **sold** to the others, no more, no less," resumed Uncle Sam. "And that their volume of money medium would involve no burden or drain upon their production, as there was no profit accruing to any person through its furnishing."

"Now assume that another man joined the community, an industrious worker equal to the others, who would also consume his full production of one thousand dollars annually."

"Now suppose the community was induced in some manner to quit furnishing their own money service on a costless basis and turn the service over to the new man to provide. Let us assume that the total supply was to be continued and that they were to pay him interest at the rate of ten per cent."

"The new provider of the money medium allayed their fears that he would become a drain upon them by assuring them that he would continue to produce as much as they did and that **he would not consume any more than they did.** To make the illustration more clear, let us assume that this part of the contract was faithfully observed. **He kept up his end as a producer and he did not live beyond their standard of living.**"

"I think we will agree that the illustration is fairly put and in a definite form to discuss the question you asked—Can this private furnisher of the money medium, overcome or neutralize the effect of such interest collection by refusing to increase his expenditures and by living like his fellowmen?"

"The community starts to work under the new arrangement. The end of the first year comes around. It is time to pay the 'money-man' the annual interest agreed upon, an average of one hundred dollars per man."

"The hundred members begin to look a little worried, but they call upon the 'money-man' to settle up their interest, according to agreement."

"They did not like to part with the hundred dollars in money for it was a part of their exchange medium. One of their number said it looked to him like cutting off one of their fingers."

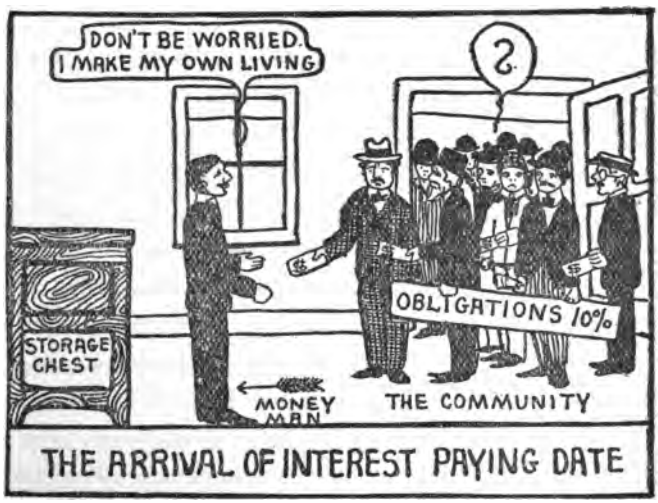
"On the other hand, they did not like the idea of paying him in their goods, for the interest would be equal to one-tenth of all they produced."

"They were in a quandary what to do, but he reminds them that he is a producer of all he needs and that he intends to live strictly up to his agreement not to become a drone and live upon their labors."

"He is rather indignant there should be the least suspicion that he intends to become a sponge upon

the rest of them. He tells them he intends to be just as self-supporting as under the old system and he wants them to live just as well as formerly."

"The hundred men are rather relieved at these statements from the 'money-man' for they had been worried at the possibility of giving up the one-tenth of all the things they had produced. They could easily see, if he took the tenth, **they would have just that much less for themselves and they had ample need for all they produced."**



"They expressed their gratitude for not being required to hand over a tenth of their products or devote a tenth of their time to making additional com-

forts and luxuries for his use, but he assured them that he was in earnest about not consuming more than they did; that he **positively would not become extravagant or wasteful**; and that it would be a crime for them either to bring products that he would not use or devote a tenth of their time to creating extra comforts and luxuries of which he would not take advantage."

"**But the interest had to be paid somehow.** Both he and they recognized that it was a bonafide agreement that ought to be fulfilled."

"So the only thing to do was for each to pay his interest **in money**, one hundred dollars. It took ten thousand dollars out of the total volume of one hundred thousand dollars to make the payment."

"He took the ten thousand dollars and set it aside with a remark to the effect that they need not be worried or alarmed, **as he would never require them to redeem it in either goods or labor.**"

"Somewhat puzzled, the community went to work again, hardly realizing they had introduced a very disturbing and discordant factor into their affairs, a factor that would produce disaster **all the more quickly because of the 'money-man' strictly maintaining his attitude as an industrious, non-wasteful producer.**"

"Ten thousand dollars of the volume of money medium had been withdrawn from use. The people

still owe the 'money-man' the one hundred thousand dollars they had borrowed from him but all they have is ninety thousand; the other ten thousand is in permanent cold storage, practically dead."

"Their debit obligations are fully alive, but the credit instruments obtainable have shrunk ten per cent. **The balance or equilibrium has been disturbed by the agreed upon arrangement by which he would not become wasteful or extravagant.** Their indebtedness to him could never be satisfied in full so long as he lives up to the agreement and refuses to spend the ten thousand."

"The community now has only ninety thousand dollars of money medium available, instead of one hundred thousand dollars. The population has not lessened. Their needs have not lessened. Their desires have not lessened. There was just as much need for one hundred thousand dollars of money medium as there had been before."

"The **business** of the community had to be **adjusted to fit the reduced volume of money medium.** If they kept prices up to the former level, they could do so only by a reduced volume of goods. If they kept the volume of goods up, they could do so only by a reduction of prices."

"Their indebtedness to the 'money-man,' being specified in **money,** dictated that they should keep prices **up,** so that his claim or charge against them

would not equal any larger proportion of their product."

"On the other hand, if they kept prices up, it meant **less goods produced** and they would have had to stand the burden of such reduction."

"The community would be 'between the devil and the deep blue sea,' trouble ahead no matter which way they decided to go."

"In such a case, both forces would be in operation. It is hardly likely that either would gain its entire contention and the net result would probably have been a compromise, a lower scale of prices and a less volume of production."

"Owing to such circumstances, in the second year their **production** would be decreased, say ten per cent, to keep our illustration in even figures. **They would only produce nine-hundred dollars worth of wealth.**"

"At the end of the second year, they again paid to the 'money-man' their interest of one hundred dollars each. **They were even more glad to pay him in money than they had been at the end of the first year,** for if they had paid him in their products it would have required **more than a tenth.** The hundred dollars interest money that each paid would have been equal to about **one-ninth** of their product."

"Ten thousand dollars more of the money medium were placed in permanent cold storage and the same process repeated in all its various stages."

"Year after year the operations were repeated, **the cord of strangulation getting tighter and tighter.** The people **hastened** the process by frantic personal efforts at **economy** to make up for the diminishing production. The economy of **each** still further lessened the market for what **others** were producing and making it advisable for **each to produce less and less goods** because of their inability to dispose of or exchange it with the others."

"It would be only a matter of time until the situation would be a practical deadlock. The entire hundred thousand dollars of money medium would

be impounded in the cold storage of the 'money-man.' The people would still owe him the hundred thousand dollars, but they would not have a dollar with which to pay him."

"Business would be prostrated by the **retirement from use of the needed money medium.** It would be harder and harder for the community to make a living and unless the pressure was taken off they would revert back to the most primitive forms of subsistence."

"When some of the men approached the 'money-man' with a view of borrowing more from him, he treated them very kindly and considerately, but he said he would have to refuse any **aditional** loans.

SITUATION BECOMES SERIOUS.

He said the present volume of loans was quite as large as safe and prudent banking would warrant, and they had to agree that he was expressing the truth."

"In fact the 'money-man' plainly intimated that as their productive capacity had become **lessened,** it had also lessened the **security** for the **existing** loans. Instead of an increase, prudence required they should make a substantial **payment.** But neither he nor they could figure out a way to accomplish such end, for they did not have any money and he did not want any goods."

"This is decidedly interesting to me," said Mr. Borden. "It looks somewhat similar to the practice of 'bleeding' that was so common among the doctors in the old days. Some of them seemed to have the idea that to restore health it was first necessary to drain away a good portion of the health and life-sustaining blood volume."

"And it looks to me as if the 'money-man,' so long as he stuck honestly by his bargain to be a worker and not a spendthrift, would share alike in the general collapse."

"Yes, they would all be in the same boat," replied Uncle Sam. "It only goes to show the peril of disturbing the equilibrium and mutual availability of debit and credit instruments."

"But let us suppose, as the situation in the com-

munity grew more and more acute, that one of the men, witnessing his wife and children gradually fading away from the sufferings and hardships of their increasing poverty, becoming desperate and half-crazed with his worries, **decided to take the matter into his own hands,** law or no law."

"While the 'money-man' and his family were temporarily absent from their home, this man broke into the house and stole the entire sum of money which they had paid in as interest and which had been regularly set aside by the 'money-man.' "

"He then told the other members of the community what he had done. They were somewhat

startled by his lawlessness, but their plight had become so grievous they were willing to hear what prompted him to do such an act."

"He said he was convinced **they must get back their money medium or perish.** He said none of them seemed able to figure out a **peaceable** or **lawful** way to get it back and that it had resolved itself into a question of taking **forcible** possession of it. He said he felt that some person must break the law to save their existence and that he was just as much entitled to make the break as any of the others."

"He suggested, inasmuch as they were equally indebted to the 'money-man,' they simply divide the money equally. He said this would **give them back the same volume of exchange medium** as in the first place and they could then renew **buying and selling** to each other and thus work their way out of the awful predicament they were in. He admitted that such defiance of their peace regulations was a sort of heroic treatment, but he felt that nothing else could save them."

"The others were favorably impressed with his arguments. They agreed to protect him from any punishment for breaking the law and order. They distributed the money equally, not forgetting to leave the 'money-man' a portion, for he was suffering with the rest."

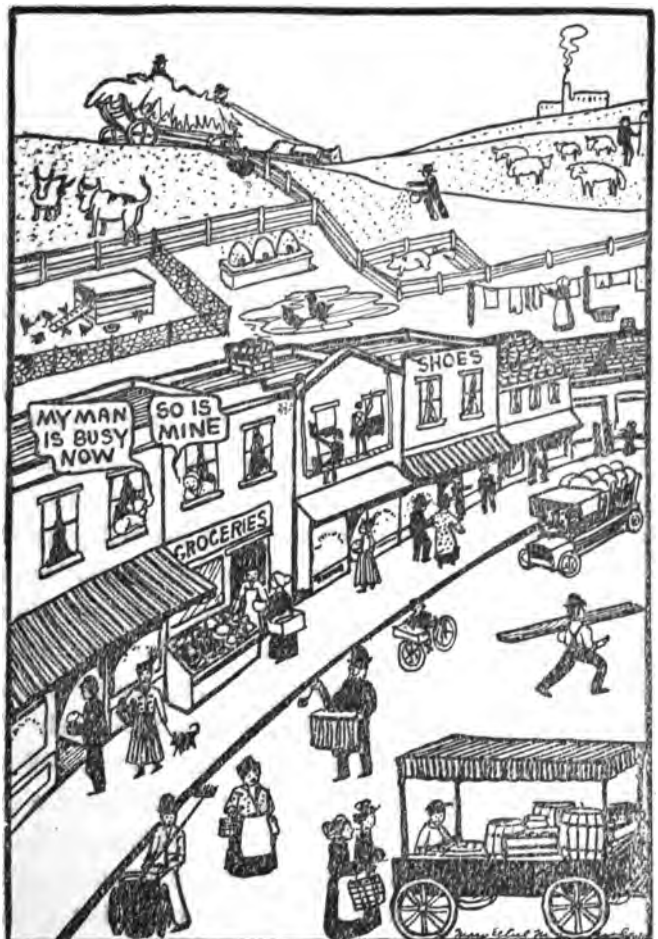
"The 'money-man' was very much surprised to

come home and find it had been burglarized, but he could do nothing, as they were unanimously against him. In fact, he felt somewhat relieved at their taking the responsibility for action of some kind, **for his wife and children were also destitute."**

"The money medium, the life-blood of the community, once more began to flow through the channels of trade."

"The effect was immediate and almost miraculous. It was like a good soaking rain after a prolonged drouth."

"Exchanges were resumed and with the increased **exchanges** came increased powers and need for increased **production."**



THE COMMUNITY AT WORK ONCE MORE.

"The community again started off on what it hoped would be a lasting prosperity. Joy and happiness replaced the darkness and despair. All became better fed, better clothed and better housed. Almost forgotten comforts and luxuries began to be once more within their command."

"But they still owed the 'money-man' the one hundred thousand dollars. He had their obligations for the amount, bearing ten per cent interest. Soon the community once more began to find itself slipping down the grade to another crisis of poverty and woe. It was as certain as the law of gravitation, so long as they maintained the system of interest collecting, with the collector of the interest living frugally and in harmony with his fellowmen."

"To view the subject from another angle, let us go back to the end of the first year, at the time when the hundred men came in to settle their interest obligations and let us suppose the 'money-man' to be an idle spendthrift instead of a frugal worker."

"Suppose he had said to the hundred men,—'You have agreed to pay me ten per cent for the use of the money medium that I have provided for you. That makes an interest charge of one hundred dollars from each of you or a total income of ten thousand dollars per year. That is ten times as much as I produce. With such an income at my command, I do not think I should work at all, but ought to live

upon my income and thereby keep from piling up a great indebtedness for you to meet at some future time. I think it but justice to use up the entire income each year. So please arrange to pay your interest in cash and I will spend it among you for products and services to an equivalent amount."

"No doubt the hundred men might think it somewhat a drain to hand over one-tenth of their products and services, but they got back their entire volume of money medium and **the capacity to produce was not reduced in the second year** as it had been in the other illustration."

"It would be only a year or two until the amount they would pay as **interest** would really be far less than what, in the other illustration, they had lost by reason of **decreased productive powers.**"

"As the years passed, they kept paying over their one-tenth, but their production was undiminished and they had the nine-tenths of it for themselves."

"They would probably grumble a good deal at keeping the 'money-man' in idleness and luxury. But since it kept their money medium available and unimpaired, their welfare was far in advance of what it would have been in the other illustration, **where the 'money-man' worked with all his ability and lived modestly and frugally, but who, in so doing, impaired the money medium and speedily wrecked its usefulness.**"

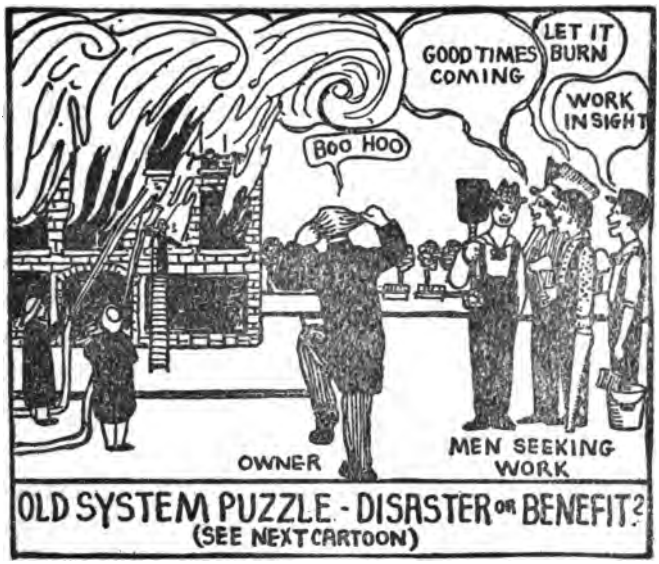
CHAPTER XVI.

Ravages of Interest Partly Offset By Waste, Misfortune and Destruction—Their Prevention Would Aggravate Matters Under Old System—Moneyed Savings a Benefit, if Held Secondary to General Welfare—Collapses Under Old System Destroyed Most Justified Part of Savings—Old System "Booms" and "Panics" a Logical Result of Its Faults—Improvement in Bond and Stock Affairs Under New System.

"In former years, the burden of interest charges was so heavy and so much of it was centralized in a comparatively few persons or families, who did not consume their incomes, that we always had a very large measure of injury arising from the locking up of money medium as a savings device and its impairment as an exchange medium."

"But the process was prevented from working out the full measure of its deadly intensity by a variety of circumstances and factors which, in themselves, would be considered by all as very unfortunate and deplorable."

"For instance, a great fire, flood or other disaster would sweep away costly and valuable buildings. The work of replacement would reduce the moneyed



holdings of the wealthy and put the money medium back into motion."

"Costly mansions would be built, sometimes of collosal extravagance. It appeared like a criminal waste, but it put the money medium back into its needed channels, there to remain **until savings or interest had again accumulated it in cold storage."**

"Fortunes would be spent in erecting magnificent mausoleums for a few people to have their bodies entombed and laid away at death. Those who erected them might be living in huts. But such outlay helped to get the money medium back into its prop-

er use and availability and thereby in some degree enabled those living in huts to secure better quarters."

"Balls and dinner parties costing vast sums were frequently held. A heart-breaking exhibition of wastefulness, for perhaps at the same time thousands and thousands were suffering from want of the plainest necessities. But it helped to get the money medium back into the channels of usefulness and thereby helped the poorest people to get somewhat better and more plentiful food."

"Some person coming into great riches by inheritance or otherwise, without business experience or judgment, would make absurd ventures and expend vast sums in paying men to do work that could never be made of any benefit to the general public. A waste of labor, it is true, but it helped to put the money medium back where it would benefit labor in channels that would not be wasted."

"With the best of intentions, wealthy men would scatter broadcast great sums in charitable or benevolent work. Most of it would be worse than wasted because it bred a feeling of servility, lessening self-respect and a just independence. Wealthy men would give great sums to establish and endow public institutions, thereby creating a very damaging impression that the public must in large measure and forever depend upon private generosity for its

institutional advantages, hiding the great truth that the whole public, if justice prevailed in wealth distribution, was amply able to establish and maintain from public revenues any and all public institutions that are justified or that can really be afforded. All such expenditures, doubtful and dangerous, good, bad and indifferent, **helped to restore the money medium to its proper function.**"

"The anarchists, or insane persons, who threw stones through windows, set fire to houses, blew up factories or bridges, scuttled ships, or committed other depredations that destroyed property and called for replacement of it, were doing the public a real service, **for they helped to keep the money medium from accumulating as unexpendable savings and thereby strangle the life out of productive efforts.**"

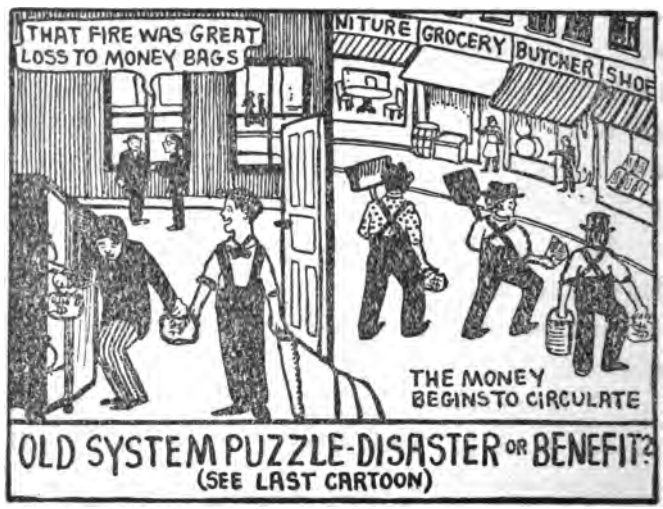
"Is it not a terrific indictment of interest that its ravages must needs be held in check and reduced by such unfortunate and deplorable factors as I have outlined?"

"It is much as if the most honorable and upright of men must get certificates of character from the most disreputable and degenerate."

"These avenues of wanton waste and destruction were oftentimes the target for great preventive measures, for they were recognized as being an

economic loss and indefensible upon their own merits."

"But, under the old system, had the efforts to abolish them been completely successful, the condition of the people would have been worse, for those wastes and extravagances, destructive and demoralizing in themselves, **were really of powerful aid in preventing more frequent and more complete industrial collapse brought about by the diverting of the money service from its primary use as a medium of exchange."**



"Under the old system, every disaster involving a property loss was by many people hailed with

gladness because its replacement would give employment to men. That was the immediate thought and first effect, but a far greater benefit resulted from the fact that such replacement would always bring volumes of money medium out of the cold storage where it had been placed by interest accumulations and send it coursing through the channels of trade, thus helping to bring about conditions that would keep men at work."

"Savings, in the form of moneyed holdings, are a splendid means of making the industrious rather independent and able to overcome the emergencies and vicissitudes of life. They are justified to the extent necessary to accomplish such work as it should justly be accomplished, even though they may interfere a little with the full usefulness of money as an exchange medium."

"But we should never forget that they are always a menace, a measure of interference with the most complete working of money as a medium of exchange. Properly controlled, they may act like an irrigating system that can be depended upon in times of extreme need. Uncontrolled, they may act like the raging torrent that sweeps everything from their moorings and leaves disaster in its wake."

"We should always keep in mind that the public, as a whole, has a paramount right to insist, and to enforce its demands, that moneyed holdings shall

not reach such proportions or be subject to any control that will materially reduce the effectiveness of money as a medium of exchange. **The industry of one generation should not be permitted to assume a form or power that would block or cripple the industry of succeeding generations."**

"Under the old system when great volumes of deposits became accumulated in the banks in the form of permanent or savings accounts, when the owners of such deposits were slow to invest in bonds and

mortgages, it would produce a tightness of money conditions, or an inability of the promoting and industrial interests to get their expected, accustomed or needed volume of service."

"The bank statements would show that they were 'pretty well loaned up' but still something would be lacking. People would begin to talk of a 'loss of confidence,' 'overloaded market,' 'undigested securities,' etc."

"The industrial conditions would go bad with the unfavorable financial conditions. There would be a relative falling off in business. Retrenchment would be the order of the day and such idea of reducing expenses would spread in all directions. Desperate efforts would be made to get in financial condition to weather the storm. **This would but hasten the process of putting the money medium out of reach as an exchange medium.** General business conditions would become worse and worse as the medium of exchange was withdrawn from exchange."

"Business men would find themselves doing business at a loss as the volume of business fell off. Their expenses and fixed charges could not be reduced as rapidly as their incomes decreased."

"Labor of all kinds would be thrown upon part time and perhaps much of it be unable to secure any employment. Poverty, hardship and suffering

would appear on all sides and the country would go through all the varied and terrible experiences of 'hard times.' "

"A sort of crisis would be reached when the depression had continued long enough to force those who had moneyed savings to draw upon and spend them."

"As the savings and other permanent funds were being sacrificed by their holders, under pressure of stern necessity, the money medium would become restored to its use as an exchange medium."

"It would be transferred to those who did not want it as a savings instrument, and who would in all probability pay it out at once. With the exhaustion or dissipation of the moneyed savings of the people, general business conditions would improve. The money medium would begin to circulate instead of lying dormant. Business would begin to brighten up and men would begin to say that 'confidence was once more restored."

"Thus we had an alternate movement of 'good times' and 'hard times,' the 'good times' producing the 'hard times' and then the 'hard times' producing the 'good times.' "

"The surplus wealth and progress of the 'boom' periods would be largely eaten up and destroyed by the enforced idleness of the 'slack' periods."

"It had become such a regular thing to have the

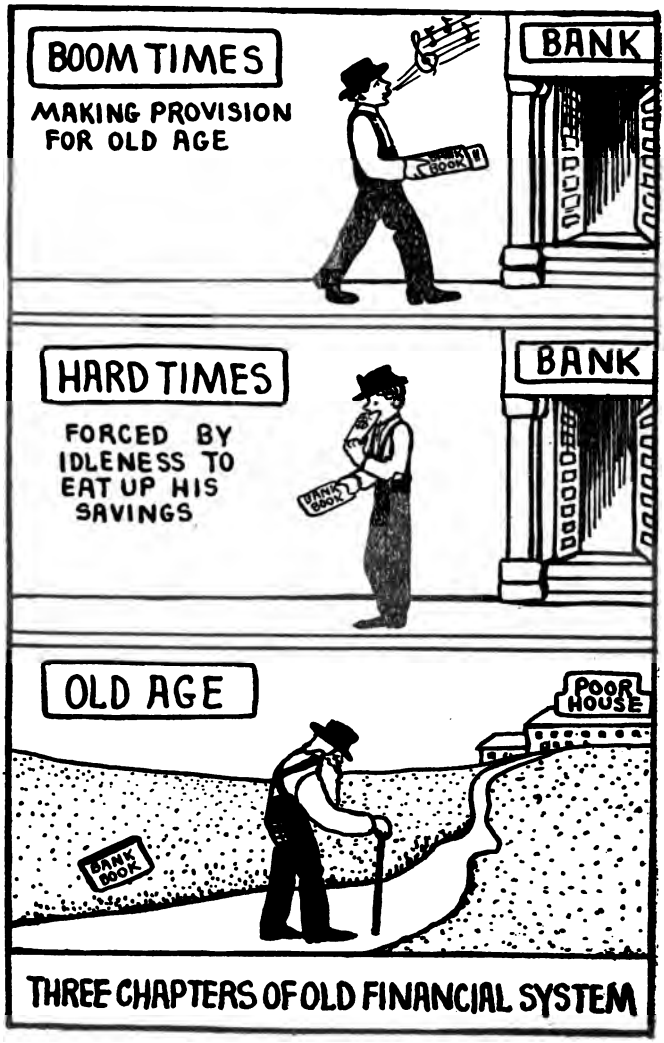
register of prosperity swing from side to side that many of the people had come to consider it as unavoidable and as certain as the return of the seasons."

"Thousands and thousands of people, who had perhaps devoted years to the accumulating of a reserve fund for the very laudable purpose of providing for their old age, for accidents, sickness or death, and for the raising and educating of their children, would find themselves, **while still in robust health and activity, anxious and ready to work, forced by hard times and unemployment to eat up and sacrifice their savings and be left without any provision to meet the very emergencies and conditions that had prompted their thrift and frugality."**

"They would often be forced into idleness during the years of what should have been their greatest usefulness, only to become a charge and burden upon the community at large as the years passed along and their productive powers became lessened or ended."

"This condition was greatly changed when we cut the chains that had made money, as an instrument of exchange, so subservient to its use as a savings device. **We abolished the unnatural situation that compelled savings to be sacrificed in order to restore prosperity."**

"Under the new arrangement, prosperity did not


BOOM TIMES
MAKING PROVISION FOR OLD AGE
BANK BOOK
BANK
HARD TIMES
FORCED BY IDLENESS TO EAT UP HIS SAVINGS
BANK BOOK
BANK
OLD AGE
POOR HOUSE
BANK BOOK
THREE CHAPTERS OF OLD FINANCIAL SYSTEM

breed panics and panics were not necessary to restore prosperity."

"Under our present system, individuals can and do continue to put savings in money form, but the productive field is not crippled by such savings."

"We may be somewhat anxious at times as to whether moneyed savings may not at some future time become too much of a drain upon the volume of production, but we have no fears that they will serve to stop our productive work."

"This feeling that moneyed holdings may become too much of a burden upon production is of great use in making every wealth producer actively concerned in seeing that production is not saddled with moneyed claims that are not actually representative of wealth production by the holders of such claims."

"Under the old system, a great exploitation of the public through worthless bonds and mortgages was very much hidden by the complexity and lack of public control in the methods by which they were issued and placed among the people."

"The people in general were grossly imposed upon by the issue of all kinds of fake and fraudulent bonds, not issued upon actual wealth, but based upon the real or fancied belief that in some way or other the concern in question would be able to bleed the public enough to pay interest upon the bonds."

"Under our present system, the people are very much interested in seeing that all bonds and mortgages have something more substantial than the 'blue sky' to back them up. Self-preservation on the part of the people requires that all bogus bonds and mortgages be suppressed."

"Our people have become so accustomed to having bond and mortgage loans made through our Public Banks, subject to full publicity and impartial investigation, that **they would be very suspicious of any issue attempted to be floated upon the public in anything like the old way. On the face of it, it would appear as if the issue was unsupported by real wealth, otherwise it could be handled through the Public Bank.** It would be conclusive evidence that the issue was a doubtful or dangerous investment and the people would be on their guard."

"Speaking about your banking system throwing protection around bond and mortgage issues, it strikes me there was much more need to control and regulate stock issues," said Mr. Borden.

"There was far more fraud and injury put upon the people by fake stocks than fake bonds. What effect, if any, has your Public Bank along that line?"

"It has had a very beneficial effect," replied Uncle Sam.

"When we began to take over the bond and mort-

ONE RESULT OF NEW FINANCIAL METHODS

gage field, the former bond and mortgage holders, where dis-inclined to let their funds remain as deposits in our banks, **were forced to invest in property or property equities in the form of stocks."**

"Many indiviuals and organizations held bonds and mortgages as investments because they were more secure than stocks. Stocks were left to run wild, comparatively little attention was paid to them, and they were considered as gambling devices quite as much as real income producers."

"But as individuals and organizations, who could not afford to lose, **found they had to buy and hold stocks instead of bonds, they became very much con-**

cerned in having those stocks represent real value and not a capitalization of wind and water. They insisted upon strict regulation and upon the prevention of bogus issues."

"As a result, stocks became even more substantial than bonds had been under the old system. Of course, we could not be sure that all stock issues would prove profitable, for ventures might be without real chances of success. But we greatly advanced the probabilities of success and eliminated the pure and simple fake stocks that were so common in the old days."

"Public opinion became so much enlisted on the side of securing honest stock issues and regulations, that it became very difficult to float them unless they had a real substantial basis. They ceased to be a gambler's plaything and were no longer subject to such wide and frequent variations as had existed under the old system."

"Directly and indirectly, our banking system has had a very salutary influence in regulating stocks. We do not have a tenth of the downright fraud and rascality we formerly had along those lines, when fake stocks were printed by the bale and worked off on the unsuspecting 'lambs.' "

CHAPTER XVII.

Two Per Cent Public Loans a Large Revenue Producer—Difficulty of Former Revenue Measures. Taxes Are Paid By Production—Taxing Wealth, per se, Discourages Thrift—Tax on Exchange Medium a Fair Method—No Apparent Burden Upon People—Money and Banking Changes Supported By Prior Experiences—Finis.

"Uncle Sam, I have trespassed upon your time a great deal today and I have been very much interested throughout," said Mr. Borden. "It has been a revelation to me and I am beginning to get some grasp of the reasons for the prosperity the people are now enjoying."

"But I promised to take supper with another of my good friends and I must soon be on my way to keep the engagement and permit you to attend to your own affairs. Before going, however, there is one other phase of the subject that has not been fully touched upon. In fact, it has only been mentioned incidentally."

"Why did you stop the loan rate at two per cent? Why did you not continue the reduction until you

brought it down to one-half of one per cent, the actual net cost of the service? **How did you come to make your banking system a revenue producer?"**

"Well, to tell the truth," replied Uncle Sam, "I think our actions on that point were hardly what you would call premeditated. Like 'Topsy,' we just sort of grew into it, found that it was a very good idea and retained it."

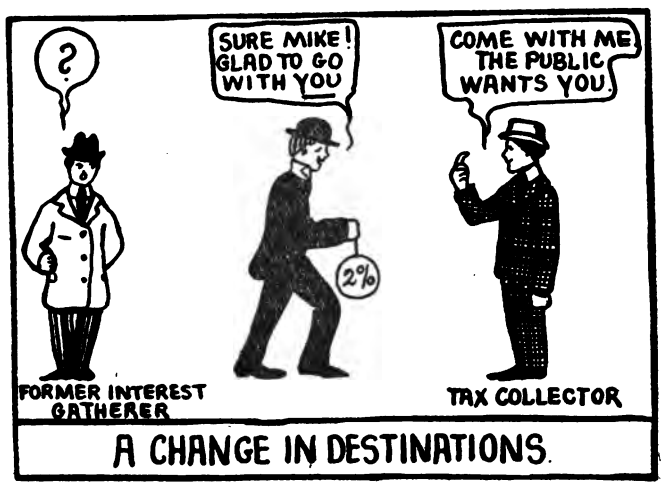
"When the rate upon loans was being reduced, the borrowers were very much satisfied at the saving they were effecting, and but very few objections were raised when it was suggested that we stop the reduction when the two per cent rate was reached and permit the profits that would accrue from that rate to become a public revenue. **The people could easily see that the burden of other taxation would be lightened to the extent of such profits."**

"In those days, we had a lot of very troublesome, vexatious and expensive ways of levying and collecting public taxes and the people thought it might be a very good idea to retain a little of the interest for revenue purposes and thereby be able to get rid of at least some of the very unsatisfactory revenue measures then relied upon."

"It has usually been the aim to raise the public revenue in the least burdensome manner and we concluded that the retaining of a portion of the interest charges formerly collected would not appear

as being any burden whatever upon the general public."

"The raising of public revenues was always accompanied by so much wrangling and jangling that the people were willing at least to consider anything that had an appearance of merit, and, when it was suggested that we retain a fraction of the interest charges for general revenue purposes **it met with a very welcome reception."**



"At that time a good portion of our revenues was being collected by a tariff upon imports and upon such subject the political parties and disputants got into some very heated and complex situations."

"At one extreme of the question we had the

high protectionists, who believed that the tariff wall should be high enough to keep out imports, so that our needs would be supplied by goods of our own production or manufacture. To accomplish its full mission as a protective measure the tariff would have to be high enough to keep out imports and there would be no revenue."

"At the other extreme were the free-traders, who believed it best to throw trade between the nations just as open and unimpeded as trade between our own States. It is manifest that a true free trade policy could not produce any revenue."

"But both parties admitted, after the elections if not before, that as a practical question, large amounts of revenue must be raised from import duties, as there was no other method in sight at that time to make up the needed volume of revenue."

"As a result of such contradictory situation, neither free-trader nor protectionist was ever fully satisfied, the free-trader deploring any tariff walls and the protectionist dissatisfied because the necessity for raising revenue prevented them from raising the tariff wall high enough to keep the goods out."

"Tariff laws were sort of mongrel measures framed quite as much upon revenue producing lines as upon a clear-cut distinction or discussion of the question of protection versus free trade."

"The political parties fought backward and for-

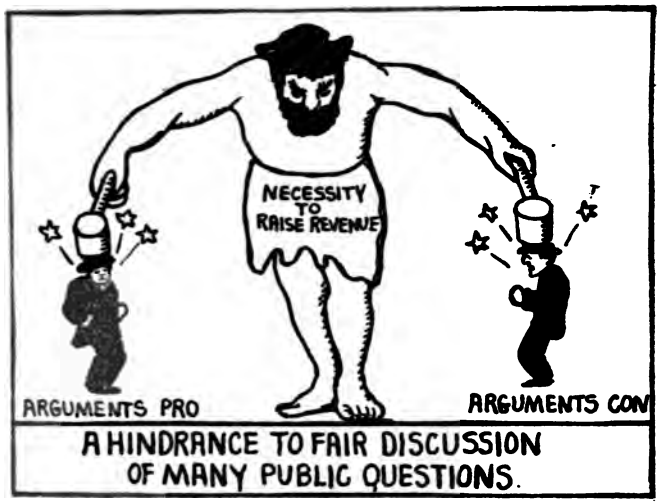
ward for years, taking turns at framing up tariff bills, the only practical difference being in an adjustment or shifting around of schedules. **Their bills would usually produce about as much dissatisfection among their friends as among their enemies.**"

"The protectionists when in power could not make the tariff high enough to keep out foreign products, as they could not afford to lose the revenue. The free-traders when in power could not take the tariff off, for neither could they afford to lose the revenue."

"As long as such necessity for tariff revenue continued, **there could not be any real discussion of the tariff question** and for generations the people were whip-sawed back and forth in tariff wranglings that could not lead to other than about the same unsatisfactory condition, regardless of which side had been declared the winner."

"I thought it would clear the air mightily and pave the way for a real discussion of the fundamental principles underlying the protection and free trade controversy if we could in some manner arrange that the question of raising revenue **need not enter into it.**"

"Experience has fully borne out my view that it would be a good thing if both free traders and protectionists did not have their arguments obscured



and neutralized by any compulsion to keep tariff duties at such levels as would produce certain revenues."

"In those days we also had a lot of 'internal revenue' taxes of various kinds, taxes upon alcoholic products, tobacco products, income taxes, corporation taxes, stamp duties, etc. Many of them were in about the same position as the duties upon imports."

"They were quite largely supported by many persons for other reasons than that they were revenue measures. They were upheld as a **method of opposition or hostility to the subject** the taxes were levied upon. But, like the tariff upon imports, those

questions could never be fully considered **upon their own merits** until there was another source provided for the revenues that were being collected."

"The methods then in vogue for raising revenues provoked quite a general effort to dodge or evade payment. Lying was encouraged and was difficult to detect. A complex system of spying and prying was required to keep the people from falling too generally into the habit of dodging or evading their assessments. It was a common saying that the man who made an absolutely honest return of his taxation was a very rare person and that most of the people would lie at least a little when it came to making such returns."

"The taxes were exceedingly expensive to levy and collect. It required the services of many thousands to run the various departments charged with the work of gathering in the revenues."

"The constant friction bred ill-feeling and hostility to all taxation. Every person was agreed that the question of raising public revenue was a pest from every point of view. It was rather uncertain what volume of revenue would be produced under the old forms, and it was often unfair and a burden upon those who paid it."

"But, while this may be of interest in showing up the difficulties of raising revenue as it was formerly handled, it still does not adequately explain

why we could agree to the raising of revenues from our control of the money service."

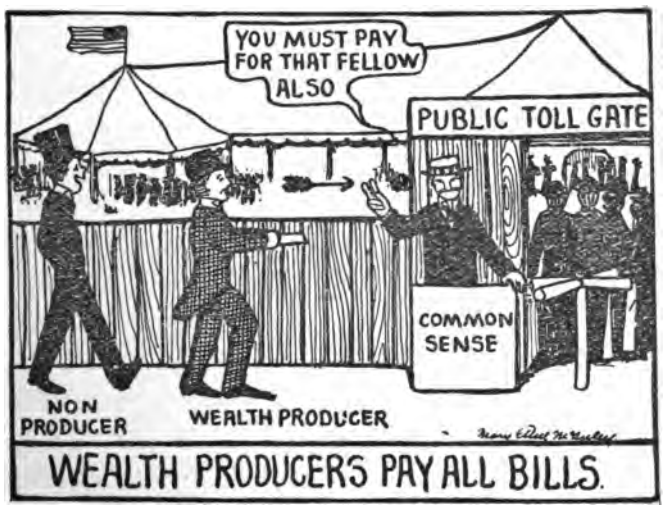
"To get at such question properly, we must consider what, in the final analysis, **is meant by the term taxes.** When freed of all the clouds of dust and confusions, taxes are but a portion of the people's products and services. They are those portions of production and service that are set aside by the community for collective purposes."

"The wealth **producers** cannot escape the payment of taxes, for taxes are but a part of wealth production. It is vain to hope that the burden of taxation can be shifted to the shoulders of the idle or non-productive, even though they be wealthy."

"Coercive or even radical measures may be deemed necessary to take wealth command away from those who never produced nor deserved it, but who have by 'hook or crook' come into possession of it, **but they should be considered and stand on their own merits as public policy measures,** intended to rectify an unfair or abnormal condition or distribution of wealth, **and not as regular revenue measures.**"

"If great fortunes or great incomes are a danger or menace to the public welfare then it would be folly to dodge the real question of forcing their holders to relinquish possession."

"To urge **revenue necessity** as a reason for heavily taxing them would but obscure the question and postpone a fair discussion of the case. For, if revenue is to be considered as the **justification** for taxes upon great wealth or incomes, then it requires and justifies the perpetuation of great wealth holdings and incomes **so that revenues may be continuously obtained from them.**"



"In the final analysis, it is impossible for production to avoid the payment of all taxes and to the widest practicable degree it should be levied upon current production and **not upon the results of past thrift and economy.**"

"I submit to your most thoughtful consideration that the question of a permanent, equitable and economical taxation resolves itself into determining the easiest and most satisfactory method by which productive industry can make such contribution, and that a collection of toll upon the medium of exchange, which every person in production must use, **is one of the best and most equitable revenue measures that could be devised.**"

"A tax collected upon the medium of exchange compels all producers to contribute, no matter how thriftless or wasteful they may be, and this equitable sharing of the burden in turn promotes greater productive efforts."

"People rightly feel that the results of their thrift and economy will not be taken away from them by an undue burden of taxation, and this tends to a wide and general increase in the **more permanent forms of wealth,** thus assuring each generation of better conditions and opportunities than those enjoyed by its predecessor."

"Our Public Bank, as a revenue producer is very satisfactory and inexpensive. The net revenue from that source, almost a billion dollars annually, **is collected practically without cost or friction. The burden is so widely distributed over the many lines of productive labor that the people scarcely feel it,** and it seems to me that this is quite in harmony with the

fitness of things generally, for our National revenues all told are but a very small fraction of the value of the total productions and services."

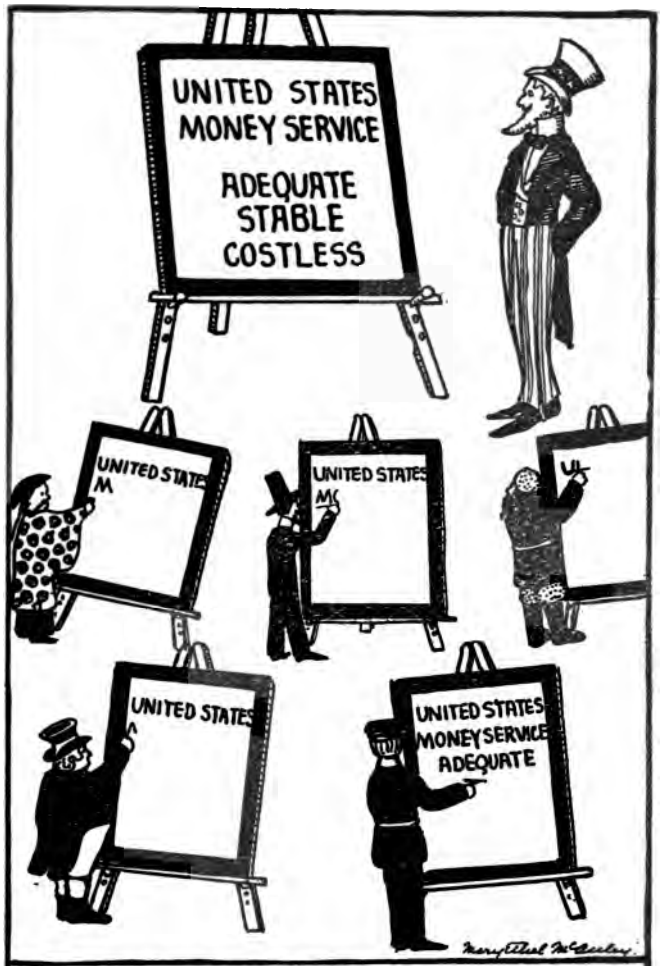
"Some of our people think we ought to raise all national, state and local revenues by the same method, making some sort of division of the proceeds, but the subject is still in the early stages of discussion and the future alone will determine just what shall be done along those lines."

"It was incidental to our main purpose that the Public Bank system became a revenue producer, an offset to those public activities that do not produce a sustaining revenue. We could easily have put our loan rate down to the net cost basis, had we so desired."

"But its advantages as an equitable source of revenue have become so clear and apparent that our people would not think of altering its usefulness along those lines."

"Yes, John, our money system as a whole is today the admiration of the world. It is rapidly being copied by all nations. Its workings are so simple and yet so effective that it almost surpasses belief why we did not have it installed many years sooner."

"This delay was all the more remarkable when we consider that not much of it was wholly new or untried, but that almost every phase of it had been tried and tested in actual experience, years and years



A PATTERN FOR ALL NATIONS.

before we organized our Public Banks."

"How is that, Uncle Sam?" questioned Mr. Borden. **"Do you mean that banks and money matters had ever before been run on anything like the lines upon which you conduct them at present?"**

"That is exactly what I mean," replied Uncle Sam. "I don't mean that any bank or nation ever had our **entire** system, but I do mean that at some time or other banks and nations have tested and proved the wisdom of most of the **various features** of banking and finance that we have now been able to combine into a symmetrical and smooth-working mechanism."

"For instance: take our low-rate loans.—For generations we had permitted the National Banks to deposit government bonds and we **loaned them money at a very nominal rate of interest,** even paying interest on the bonds while in our custody. Later on we also allowed them to deposit other securities."

"The **principle** was right then and it is right today, the essential difference being in the degree of **application.**"

"By limiting the security to a **few** items and **barring** the general public from such service, the former application of the low-rate loan policy became a very unfair **special privilege.**"

"But when we broadened the range of securities and brought the general public **within** its bounds,

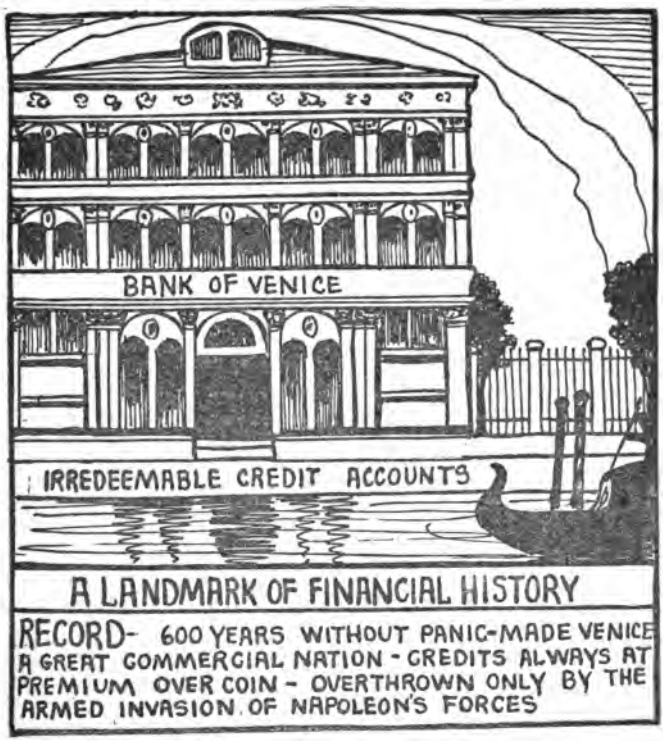
the special privilege became transformed into a **public benefit.**"

"The free coinage of gold formerly existing was really a form of lending money without charging for it. This was not so **apparent** in former years, for free coinage itself had made gold bullion and dollars of interchangeable value. It would be clear as daylight **now** if we would attempt to lend a dollar without interest to everyone who would put up 25.8 grains of gold bullion as security, for such bullion is not worth a dollar in the market."

"As mentioned before, in the early days of our Postal Banks, we had the low rate loan idea working to the benefit of the **other** banks. We loaned them our collections at two and one-half per cent interest."

"Doing away with the use of gold and silver was not original with us. If you carefully scan the world's history, you will find that nations **often** dispensed with them. In fact, you will find that most of the nations, **in their times of greatest need,** always carried their affairs through without the aid of either gold or silver."

"Neither was it an original idea for us to have a Public Bank of our own. In fact we were one of the slower ones to adopt such step, although we have now surpassed them all in the scope of its operations."



"Speaking of Public Banks, I want to call your attention to what was one of the most remarkable banks in all history. I refer to the Bank of Venice, **which for five or six hundred years continued its course without a semblance of panic or disaster."**

"Unfortunately, many of the details of its operation have not been preserved by the historians, but enough has been preserved to show clearly how the

actual experience of that great bank flatly contradicted many of the principal contentions of those who were opposed to installing or developing our Public Banks."

"For instance,—take the question of our doing away with gold and silver and issuing credits and currency without any provision for gold or silver redemption."

"Many of our people thought it quite impossible to accomplish such end, but, if they had studied the history of the Bank of Venice, they would have had their assurances along that line very thoroughly uprooted."

"The main feature of the Bank of Venice was a **transferable but non-withdrawable system of credits,** or checking accounts. They were even more radical than we are, for while we permit people to take out circulating notes if they so desire, the Bank of Venice credit accounts could not be so withdrawn. All that could be done was to check them around, in whole or in part. They were purely a matter of bookkeeping."

"From the viewpoint of many of our people, it would be utterly impossible for those credits or checking accounts to be worth anything, as they were not redeemable in the precious metals."

"But the fact remains that such credits were not only **good,** but that the people considered them a

better money medium than either gold or silver."

"Generation after generation, century after century, those credits were so much preferred to coin that they always commanded a premium over coin, the premium finally having to be limited by law."

"Through the beneficent effect of such non-intrinsic credits, the little Republic of Venice became one of the great commercial powers of the world. People all over the world would sooner base their business affairs upon the Bank of Venice credits than upon the precious metals."

"The Bank of Venice passed from existence only when the armed forces of Napoleon overran the country, and changed its customs and its institutions. They little realized that in destroying such bank they were casting aside a mechanism that would have continued to produce endless benefits if it had been perpetuated."

"Taken all in all, we have not only had our reasoning powers to guide us, but we have had plenty of examples from actual experience to uphold us in almost every phase of our banking and financial work."

"We have simply altered and reconstructed our mechanism of exchange so as to make it a fit associate and helpmate of an inventive and industrial capacity that has never been excelled in the history of the human race."

"We have simply directed our energies to the encouragement of the greatest possible measure of useful productive efforts and the widest and most equitable diffusion of the results."

"As a people, we congratulate ourselves upon the success that has already attended our efforts along those lines and we hope and expect the future will give us an even greater measure of general progress and prosperity."

"But I must not keep you any longer. I have thoroughly enjoyed our day together, but I don't want to be the means of making you late in your

other appointment. Come again soon, John, for I enjoy your company very much."

"Indeed I will, Uncle Sam. This talk of ours today has been of vast benefit to me. I am just beginning to get an idea of the great good that arises through our public institutions being rightly managed and when the **popular welfare** is the guiding principle."

"Good-bye, Uncle Sam."

"Good-bye, John, and Good Luck."

NOTE BY THE AUTHOR

In writing "Uncle Sam, Banker, 1910-1940," I have endeavored throughout to carry the theme in a regular and systematic manner, starting with the general situation as it presented itself in the year 1910 and from thence portraying the subject in such manner as, to my judgment, fairly outlines the probable developments of the succeeding period of thirty years.

The various stages of its development will necessarily involve and require many legislative enactions and administrative reforms, but I do not have the egotism to imagine that the precise measures and policies set forth in the various chapters are the best ones that can be devised to fit in with and become adjusted to the varied and ever-changing conditions as they arise and develop in the fields of actual experience.

In such respects, the argument has been given its rather specific form more for the purpose of focussing the attention of readers and for the conveying of a clear idea of the main ends in view, rather than to argue for legislative and executive policies, which, in every human probability, would have to be frequently and materially altered to conform with the development of unforseen circumstances and conditions.

For like reason, the question of how much time may be required to secure any certain stage of progress or to realize the hope for a development of the whole subject, will no doubt be altered materially by actual experience. The year 1940 may be too soon to get the financial system established in the full measure of the contemplated improvements, or, on the other hand, progress may be far more rapid and the goal may be reached long before 1940.

As the volume, in its various parts, provides and outlines a regular sequence of legislative and administrative activity, I think you will probably find a concise schedule of the more important items a rather helpful feature for ready reference and the following summary has been prepared and inserted to provide for such need:

Summary of the Legislative and Administrative Policies Outlined.

Page

Enaction of Federal Reserve Bank Act..... 60

Postal Savings Banks—Early Provisions..... 63

Decision to invest Postal Bank deposits in public securities at three and one-half per cent interest, instead of depositing them with other banks..... 75

Interest rate upon deposits in the Postal Banks raised from two per cent to two and one-half per cent.... 78

Reduction of interest rate paid upon deposits in other banks, until all interest-paying accounts are prohibited 80

Postal Banks thrown open for checking accounts..... 83

Private banks prohibited from accepting any deposit accounts. Limited to lending of capital stock..... 83

Enlargement of the field of securities acceptable for loans from the public banks..... 83

Temporary retention of "cash reserve" method of regulating volume of loans from the public banks..... 85

All deposits in the public banks made interest-bearing and payable on demand..... 88

Provision for issue of a full legal tender National Currency 97